

**NOT BORN YESTERDAY:
HOW SENIORS CAN STOP INVESTMENT FRAUD**

HEARING
BEFORE THE
SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE
ONE HUNDRED NINTH CONGRESS

SECOND SESSION

WASHINGTON, DC

MARCH 29, 2006

Serial No. 109-20



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WEDNESDAY, MARCH 29, 2006

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The committee met, pursuant to notice, at 10:10 a.m., in room SD-106, Dirksen Senate Office Building, the Hon. Herb Kohl presiding.

Present: Senator Kohl.

OPENING STATEMENT OF SENATOR HERB KOHL,

Senator KOHL [presiding]. Good morning. I would like to call this hearing to order at this time, and we welcome our witnesses.

I would like to thank Chairman Smith, who will be here in a minute, for working with me on today's hearing to shine a bright light on the disturbing and growing problem of senior investment fraud.

We have all heard stories of seniors losing their money through one scam or another, things like foreign lotteries, telemarketing schemes, identity theft. But today's seniors are facing new risks. Many are struggling to meet rising health and day-to-day living costs, bearing more risk in their pension plans, and anticipating long-term care expenses. Too many are finding that their savings are just not enough.

Faced with this shortfall, many seniors are turning to investments to increase their retirement income. Some are investing wisely and building the savings they need. But sadly, others are proving too easy prey for con artists ready to steal their hard-earned and harder to replace money.

Investment fraud is on the rise. My home State of Wisconsin saw a 21 percent increase in the number of financial abuse cases reported in 2004. Experts estimate that only 1 in 25 cases are reported Nation wide.

Today, our witnesses will describe the many faces of senior investment fraud—investment seminars designed to steal seniors' personal information, Ponzi schemes, trumped-up senior specialists who have no special financial training, and callable CDs, just to name a few. Regardless of the scam, the outcome remains the same. Seniors lose their irreplaceable retirement income.

You don't have to look too far to find an example near you. In Wisconsin, we heard the story of a retired dairy farmer who invested \$85,000 in what he was told were gold coins with promises of an 8 percent to 40 percent return on his investment. Little did

he know that he was being drawn into an intricate interstate Ponzi scheme, and he will probably never see his money again.

We have also heard from an attorney in Milwaukee who tells the story of her client losing \$40,000 to a questionable estate planner who convinced a senior to invest in his business venture. The business venture didn't exist, and the senior's money was gone.

Let us make one thing clear. Investments are not a bad thing for seniors. They can be useful retirement income vehicles. It is the bad actors and the criminals who peddle fraudulent investments that we must stop.

Today's hearing will be just a first step. One of the keys to stopping senior scams is to educate seniors looking to invest. To that end, I have developed a tip sheet to help seniors know what to watch out for when investing and where to turn for help. This handout will be available to Wisconsin seniors through my office, and we encourage other States to use it as a model to distribute to their seniors as well.

I also plan to continue working with our expert witnesses on legislation to protect seniors from scam artists. We need to tighten rules that require sellers of securities to disclose their credentials and training, as well as any hidden fees or high-risk investments that they sell. We should also make it easy for seniors to check out specific sellers to ensure they are reputable and to increase penalties for those who run these scams.

We need to make sure that Federal and State law enforcement officials have the training and the resources they need to investigate and prosecute senior investment fraud. Finally, we need to pass the Elder Justice Act, which includes key research and training provisions to combat investment fraud.

As our population ages and seniors live longer, they will look for ways to make their retirement income last as long as they do. We need to make sure that they can invest wisely, without the added worry that an unscrupulous advisor will run off with their money.

If seniors take away one message from today's hearing, I hope they will remember this. It took you a lifetime to save your retirement income. So take just 5 more minutes to make the call that could protect it.

We look forward to hearing from our witnesses, and we have our first panel in front of us. Our first witness today is Mrs. Ruth Mitchell from Columbiana, OH. Mrs. Mitchell is here to tell us her story of how she and her husband were bilked out of close to \$100,000 of their retirement savings in an investment Ponzi scheme.

After her, we will hear from Mr. Barry Minkow. Mr. Minkow was charged and convicted of a variety of securities fraud in the late 1980's. Following his almost 8 years in prison, Mr. Minkow has worked with law enforcement and corporate America to uncover and eliminate investment fraud. Mr. Minkow also serves as senior pastor at Community Bible Church in San Diego, CA.

We welcome you both here today, and we look forward to your testimony. First, Mrs. Mitchell.

**STATEMENT OF RUTH MITCHELL, VICTIM OF INVESTMENT
FRAUD, COLUMBIANA, OH**

Ms. MITCHELL. Thank you. Good morning.

At this time, I would like to thank the Senate panel for inviting me to testify about the fraudulent investment that we became involved in 1994.

My husband, Len, and I lost \$100,000 in a scam orchestrated by Barry Korcan from Beaver, PA. Barry Korcan owned a large CPA firm, and he had done my husband's corporate taxes and payroll for over 20 years. My husband retired in 2004 at age 80. Barry Korcan also did our personal taxes for 18 years.

In 1994, Barry Korcan started an investment company called Guardian Investments and sold Len and I real estate bonds. We were promised 8 percent interest on these bonds. We had decided to downsize and build a smaller house than the one we had at that time in Pennsylvania, and we moved to Ohio in 2002. At that time, we were supposed to have had \$100,000 in the bond account.

We received quarterly statements and an interest check. It is apparent now that the interest was either our own money or someone else's money stolen from them. In February 2005, when we had not received our interest check in January, we called his office and several times were put off by the office staff, and Barry Korcan would not come to the phone.

Finally, on Ash Wednesday of 2005, which fell in February, we were told by the office staff that they did not know anything about bonds or interest, and their office was shutting down permanently that Friday. We were stunned.

We contacted a local Edward Jones agency, and the owner of the agency worked with us for about 4 hours the day after Ash Wednesday to find out what had happened and to try to transfer the bonds to Edward Jones. He finally called the district attorney's office in Beaver County, PA, and they advised him to call the Beaver County detective agency.

We were then told it was a giant scam, and the government was seizing everything that Barry and Heidi Korcan owned. He stole \$11.5 million from 39 victims. Almost all of the victims were business people or doctors or other people who had the funds to buy these bonds. You could only get in the bond program with \$30,000 or more.

We were devastated. I am 64 now, and my husband is 82. In our lifetime, we can never make that money again. We own our own home, free and clear, and we do not owe anyone a dime. But not having that cushion is really frightening.

I was a lifelong figure skating instructor, and I have recently gone back to work at teaching ice skating at the Ice Zone in Boardman, OH, just to try to build a small cushion for us.

Barry Korcan was also our neighbor. We bought our lot from him in 1996. We realize now that he had been stealing from us for 2 years when we paid him another \$30,000 for this lot. He sat at our table for dinner and was a guest at my husband's surprise birthday party that I had for him—at a 75th surprise birthday party I had for him at a local restaurant.

As a result of this theft, I was under my doctor's care for depression and nerves for about 7 months. I lost a lot of weight, and I

could not eat or sleep. My husband was absolutely crushed because he trusted Barry like a son. Finally, I began to realize that the only way that I could heal was to help other people in the same situation or to help other people in becoming more careful about their investments.

I have given talks in the past on various subjects and, most recently, gave a talk to the local AARP chapter in Columbiana, OH. The Pennsylvania Securities and Exchange Office from Pittsburgh worked with me and provided me with handouts for the people, and the talk was really very well received.

I want to be able to talk to people not as an expert, certainly, but as a “been there, done that” individual. I seem to be able to heal a little by helping others to avoid such a trap.

Barry Korcan will be sentenced on April 28 at 2 p.m. in the Federal Court in Pittsburgh. We will be there for the sentencing.

No matter what sentence he gets, it will not help us recover our money or the other victims recover their money. I can only hope that Len and I can heal completely and the other victims will find some sort of peace or closure.

Thank you so much for your time.

[The prepared statement of Mrs. Mitchell follows:]

Written Statement of Ruth Mitchell

INVESTIGATE BEFORE YOU INVEST is the slogan that the Pennsylvania Securities and Exchange Commission stamps on the outside of all the envelopes that they mail out. How appropriate! I wish someone would have stamped that on our foreheads a long time ago. I will tell you in this written statement exactly how my husband, Len and I lost \$100,000. We were informed on Ash Wednesday 2005 that Barry Korcan CPA had stolen \$100,000 from us. Barry Korcan was our investment person. However, he was more than that. He owned a large CPA firm in Beaver, PA, and he had done my husband's corporate taxes and payroll for over 20 years. He also had done our personal taxes for 18 years. He lived two doors from us in Evergreen Hills in Chippewa Township in PA. Barry Korcan started stealing from us in 1994 and he started to steal through the years from 39 other victims. Barry Korcan started Evergreen Hills Development in 1990 and we bought our lot from him in 1996. It is now apparent that he was stealing from us for two years when we paid him another \$30,000 for our lot. He sat at our dinner table and socialized with the entire neighborhood. He and his wife, Heidi, attended Len's surprise 75th Birthday Celebration that I had for him at a local restaurant.

Barry Korcan stole eleven and one half million dollars from his victims. He and his wife, Heidi, lived an extravagant lifestyle. New Cadillacs, boats, sports cars, vacations, homes, etc. Barry and Heidi hobnobbed with all the Pittsburgh pro hockey and pro football players, even to the point where Mike Webster from the Steelers lived with them for a time when he got into such financial difficulty before he passed away. Barry gave him money, victim's money, but in the end Barry possessed all four of Mike Webster's Super Bowl rings. Barry showed them off at a swim party across the street where we lived, at Dr. Tim Jackson's house. My husband even tried one of the rings on!

I was a lifelong figure skating instructor and power skating coach for hockey, and Barry and Heidi were in my adult night classes at the Beaver County Ice Arena near Beaver, PA in the early '80's. I did not care much for Barry Korcan's personality at that time. There was something about him. Arrogance, I guess. I never thought he was a thief in the making, but he did not treat women particularly well. Len felt, even though I did not like Barry, he ran a big business and he would do well with our money. HE DID WELL WITH OUR MONEY ALL RIGHT!

When we were made aware of the theft, which was finally uncovered, we understand, by an IRS audit, I was so mad and so upset that I nearly had a nervous breakdown over the entire thing. I was under my doctor's care for about 7 months for depression and nervousness.

Also, our house was besieged with television stations, postal authorities and newspapers. Also, the S&E people from the Pittsburgh office were here. We could not go anywhere and still cannot, without someone asking about this theft and how it is coming along and how are we doing. So much for a happy and relaxed retirement!

After I got over being so angry, I began to pray a lot about what had happened. We did have a great support system from friends, fellow parishioners at St. Jude in Columbiana and our neighbors, and that made it difficult to stay mad forever. Plus, we have a beloved little Bichon Frise dog named L.G. and he tried his best to keep us happy. I could not keep feeling bad with his little black eyes looking at me with so much love in them. Thank Heaven for L.G.!

In the fall of 2005 we were contacted by the US Attorney's office and advised that Barry Korcan's indictment and sentencing would be coming in the months ahead. The government seized everything that Barry and Heidi Korcan owned and we were told there will be some retribution, but nothing like what we lost.

We have several friends, all business owners and my husband's former cardiologist who lost money due to Barry Korcan.

Barry Korcan used; I believe the word is call affinity, to get close to his victims. In our case, he did our taxes and he knew exactly what we had. However, in 1991 I was involved in an automobile crash that was caused by another driver not being careful. I had to have eight orthopedic surgeries on my hands, arms and shoulders. I had to quit teaching and lost all of my students to other teachers in the Pittsburgh area. I received a settlement three years later for \$108,000. Barry was aware of this, and he talked to Len about investing our settlement in his really good investment plan with Guardian Investments. Barry knew exactly what he was doing, I realize now. I now do not have a full time teaching career, I do not have good hands or arms, plus I do not have the money he stole from us.

Len and I were the only people to step out and tell our story, and some of the other victims called us. A woman from Virginia, who used to live in Beaver Falls, PA, called us several times. Barry Korcan's sister Andrea Buzza and this woman were in college together at Geneva in Beaver Falls, PA. They were really good friends, even being in each other's weddings. Well, at a relatively young age the woman from Virginia lost her husband from a heart attack. Andrea suggested to her that she invest all of the life insurance money with Barry. Barry Korcan stole every cent of the life insurance money from her husband's death. There was also another inheritance she had, which she lost to Barry. She never took any "interest" from her investments, so she lost everything.

One of Len's good friends, the owner of a home building company in Chippewa, lost about \$400,000. He trusted Barry because Barry had always been his accountant and tax person. He is 74 years old and in terrible condition. We talk to him every so often.

There is a couple from Florida, the Gumpfs, who knew Len a long time ago. They called us a couple of times. They lost about \$30,000. I do not know what connection they had with Barry Korcan. We also had an orthopedic surgeon who used to live in our neighborhood in Evergreen Hills call us. He saw our story on timesonline.com. His name is Lawrence Bell. He lost money to Barry, but not in this bond scam, and about \$25,000. I do not remember where he moved his practice but it is still in PA but in

another part of the state. He lived next door to Barry so that is how he got sucked into the system. Barry never even gave him any type of paper work, he said. I have not heard from Dr. Bell since last year.

Barry Korcan even got to the point in our neighborhood, Evergreen Hills, which he developed, that he did not want to purchase mulch every year for the entryway beds. So, we had a neighborhood meeting and formed a landscaping committee and most of the families contributed \$100 towards the upkeep and I did all the work. No one else would help. Now, I realize Barry was stealing our money and I was doing all the mulching, weeding, pruning, etc. There were some of our neighbors that really hated him, but they never thought he would steal money. I felt that way, also, of course. Barry Korcan's wife, Heidi, always looked down her nose at me and some of the other people who would go out and get their hands dirty. Heidi was always perfect. She went to work with Barry everyday in gorgeous clothes, her hair and nails perfect. Barry even had a tanning room put into their new office building in Beaver, PA so she could keep up her tan. I feel Heidi Korcan knew everything that was going on. Her name was on all of the income tax records. Barry and Heidi owe the IRS 1.2 million dollars. Her name is also on some of the other documents of things they owned, such as Daugherty Development.

I will tell you know how he masterminded this Guardian Investment scam. He got people to give him large sums of money and he was supposedly going to purchase real estate bonds. He never purchased any real estate bonds for anyone. There was never a Guardian Investment Company. Everything we received, such as the statements were phony and the "interest" checks were not interest at all. This entire thing existed only in his computer. The next whammy was that we paid income tax on this "interest" all of these years. We were only allowed to file amended taxes for three years. So, it boiled down to all of us gave Barry Korcan our money at no interest to him to use for a lavish lifestyle and fund his CPA business, etc. When you think about it, it makes you so angry. Here was a man who had a large business and had a really good life, but he was not happy with that. I said to a detective "Why couldn't he have been happy with what he had?" The detective said "Hitler wasn't happy with just Germany, either."

Because we stepped out and told our story and made ourselves available for interviews, the US Attorney handling the case has asked us to appear in Federal Court when he is sentenced to read victim's statements. Barry Korcan will be sentenced on April 14th, 2006. Oh, by the way, that day is Good Friday?

We saw television footage of him coming out of the Federal Court House in Pittsburgh at his first hearing on January 5, 2006. He is 49 years old and looked like he was 75. His hair is completely grey and his skin was hanging off his bones, he had gotten so thin. I guess he wrote his own story. I know money is not what makes your life, but it is awful to save and save your money and get your home paid for and not owe anyone anything, and think you can retire comfortably and then have so much money stolen from you. We do not live lavishly at all. However, if we wanted to go out to dinner or have company to our home for dinner we could. We have had to completely cut out all of things we enjoyed doing. I recently accepted a position with an ice arena. The IceZone in

Boardman, Ohio as an instructor to try to build us a little cushion. I will be 65 years old this year, so I hope I can keep skating for a few more years. Len, however, did not retire until age 80 in 2004. He is now 82. He is in really good condition, but working in his profession as an architect is probably not a possibility. He was a partner with WMB Architects in Beaver Falls, PA and they just did commercial work. Those kinds of jobs take so much time and so much energy to produce.

Some of the things we have learned are NEVER give money to a person that works alone as a "broker". If the person who sends you an interest check signs it personally, be wary. Also, watch the lifestyle of your investment person. Lavish usually spells thief.

Make sure the person is licensed with the Securities and Exchange Commission. Each state has an office at the Capitol. Ask questions and do not be afraid to hurt anyone's feelings by asking about their track record or integrity.

I recently became aware of the fact that there are three states that do not require investment people to register. My state Ohio is one of them. Pennsylvania requires registration but if someone is a thief they will not call S&E to talk to them, certainly.

I based this written testimony on our experiences. I have already used our experiences to give a talk to the Columbiana, Ohio AARP group at a luncheon a couple of weeks ago. My goal is to be able to reach out to people who have been wounded or primarily to talk to groups of people to let them know how easily this can happen. I want to speak as a "Been There, Done That" person. Hopefully, I can turn this lemon into lemonade.

I think Len and I will survive this ordeal. The only way I can heal is to help others. I hope I have that opportunity in the future to help people before it is too late for them. I wish we had heard from someone like my husband and I before we lost our money.

Senator KOHL. Thank you, Mrs. Mitchell, for your moving statement.

Mr. Minkow.

STATEMENT OF BARRY MINKOW, FORMER SCAM ARTIST, SAN DIEGO, CA

Mr. MINKOW. Thank you, Senator Kohl.

It is a real privilege to be here this morning, and thank you for having me.

I guess what I would like to say is the reason the problem of investment fraud is happening on such a large scale, as indicated in the written testimony, is there seems to be this kind of perfect fraud storm, appreciating housing market. As a former perpetrator, much to my shame, we would identify victims by their ability to invest.

So now people who would normally not be "targets," who have equity in their homes in an appreciating housing market, suddenly become targets. They are also not satisfied with the current stock market returns in the last 5 or 6 years. That creates a fear of not having enough, the fear of outliving your money. There is, you know, under performing CDs.

So there is this environment for fraud. It is like this perfect fraud storm. Low interest rates, can't put my money in the bank and get any high returns. Kind of equity in the home sitting there. Wall Street isn't working. That is the environment where people will infiltrate and exploit. That is what I am seeing both on the uncovering side and then, of course, sadly and much to my shame, in the 1980's when I perpetrated.

Some of the techniques we use, everything is on the table. I cannot tell you in the last 20 years, from being the perpetrator now to working undercover, I have never seen, Senator Kohl, the unbelievable "will do anything to defraud" kind of approach. In my case, much to our shame, we created some 20,000 fraudulent documents to fool the auditors. I am not proud of that.

However, today, I am seeing—this came to me Friday. This is an original check. This is an original check. I am glad to show it to you. This is a sweepstake. An elder man in our church came to me and said, "This is a \$2,900 check to me." He said, "I called the bank, and it is good."

The perpetrator of this sweepstakes fraud, and I have it right here—the original document—ID theft an insurance company, a life insurance company in Massachusetts. Printed their account information on this check, and sent it to a guy, saying "you won." Once he deposits it, not only will it bounce, but he was also asked to return a higher amount of money.

I have never seen this kind of ID theft on an active checking account, \$2,900. Somebody who is not sophisticated thinks, "Yes, I won the Canadian lottery," even though they probably never entered. It is just people will stop at nothing, it would appear, to defraud—phony financial statements, promises of outrageous returns.

The other thing is affinity seems to be a big problem. Mrs. Mitchell mentioned that this person was a close friend. Affinity in churches. The Securities and Exchange Commission—don't believe me, just ask them or Karen Patterson at the Department of Cor-

porations in California how preeminent affinity fraud is in church groups. You tend to put your guard down when somebody from church comes to you with an investment opportunity.

In the black community, it has been in Chicago Development and Planning, a fraud we uncovered. Ware Enterprises, this guy is doing 18 years in Florida. It was an affinity fraud, especially at NFL players because he used to be someone who was in that professional football arena.

This affinity thing is huge. That is why what I think Mrs. Mitchell said about reverse affinity, somebody who is their age saying, "Yes, don't do this," may be effective as well.

We are seeing points of similarity in frauds, and we are also seeing people that will go after the elderly and be a comfort for them that they may not be getting from their son or daughter. They will come in and be a friend, and they will take your money. But they will provide that emotional need that may not be—when you are elderly, maybe you are alone more, and they will be that friend. They will also take the money. So there is this vulnerable area as well.

I am trying to get everything in on time here. Also here is what I think can be done. You mentioned in your opening statement about proactive work with law enforcement, not waiting. Traditional law enforcement is this. Wait until Mrs. Mitchell comes with her fraud.

What we have tried to do is infiltrate ongoing financial scams in progress before law enforcement knew about it so money can be frozen and victims can get their money back.

Just a month ago, we were about to do that in the 12 Daily Pro auto surfing scam. Fifty million dollars frozen, made the front page of the Wall Street Journal. Now victims are going to get recovery. This is a new approach.

Now the problem is, is the average person, when they think a fraud is going on, goes to the FBI or they say, "I think a fraud is going on." They are like, "We are understaffed. What do you got?" "Well, I just think."

The advantage of having been prosecuted by every law enforcement branch in the Nation, me, I know what meets the burden of proof that they need to prosecute. So we put 50-page reports together identifying the fraud, pointing out the bank accounts and records, auditing the sources and uses of cash, bringing them the promoter's prospectus, and infiltrating the fraud.

On my way here, I was on the phone doing a wiretap for the FBI on an ongoing financial fraud promising 10 to 1 returns. So it is a new, fresh approach.

I have got 10 seconds. You should see me at church when I go long. It is really bad, Senator.

Also we want to increase the perception of detection and increase the perception of prosecution. That is the only thing that stops people from perpetrating crime is if they know there is an increased likelihood that they will be caught.

I am sorry. I am out of time.

Senator KOHL. Thank you very much, Mr. Minkow.

Mrs. Mitchell, how has this terribly unfortunate loss of your money changed your retirement plans? You indicated you have had to go back to work. Is that what you said?

Ms. MITCHELL. Yes, I am teaching ice skating. I teach both figure skating and power skating for ice hockey, and I am doing that about 4 times a week now, 4 days a week.

Senator KOHL. Who are you teaching?

Ms. MITCHELL. At the Ice Zone in Boardman, OH. Did you ask me where?

Senator KOHL. Who are you teaching?

Ms. MITCHELL. Oh, who am I teaching? I am teaching little kids through adults, and I am teaching hockey players. I have had over 30 years experience at coaching. So I am pretty much back in the groove again except for my age.

Senator KOHL. Are you enjoying that?

Ms. MITCHELL. I am enjoying that. That actually helps to heal me, too. But I just love to teach, and I love to teach skating. I will also be starting a class for blind people. I have worked with blind people on the ice for many years.

Senator KOHL. That is great.

Ms. MITCHELL. It is hard on me because I am a little bit older, but yet I seem to be accepted at that ice rink as being an older coach. I was afraid they would think of me as just being someone that was just too old. But the younger coaches are sometimes looking at me for advice on how to handle this, or how do you convey this message?

Senator KOHL. That is great.

Ms. MITCHELL. I think it is probably going to work out. I hope I can skate a few more years.

Senator KOHL. That is great.

Ms. MITCHELL. For fun, I skate on a synchronized team. They may kill me on that one, but— [Laughter.]

Senator KOHL. Good for you.

Ms. MITCHELL. Thank you.

Senator KOHL. If you could give a senior one piece of advice regarding investments, what would it be?

Ms. MITCHELL. The one piece of advice that I would give seniors is a logo that I saw stamped on the Securities and Exchange from Harrisburg on their envelopes, and it says, "Investigate before you invest." We did not.

Also watch for a too lavish of a lifestyle, which Heidi and Barry Korcan had too lavish of a lifestyle. I mean, they hobnobbed with all of the Pittsburgh Steelers and the Pittsburgh Penguins. Mike Webster lived two doors from us with them before he passed away. Barry Korcan gave him money because he had gotten into such financial straits.

Senator KOHL. Yes.

Ms. MITCHELL. At a swimming party in our neighborhood, Barry Korcan showed off all four of Mike Webster's Super Bowl rings. He was in possession of them. So I would say watch for lavish lifestyles, and don't be afraid to hurt someone's feelings by asking them questions.

Senator KOHL. That is very important.

Ms. MITCHELL. Like, "Are you honest or aren't you honest?" Also call your Securities and Exchange Commission to see if they are registered.

I understand there are three States in the United States that don't require investment people to register. One of those States is Ohio. One is Colorado, and someone said they thought the other one was Wyoming, but I am not certain of that. But there are still three States. But, of course, Barry wouldn't have registered anyway.

Senator KOHL. You are saying, for certain, you must be absolutely positive about who it is with whom you are investing?

Ms. MITCHELL. Absolutely. Check out every avenue.

As Securities and Exchange people from Pittsburgh have told me that when they talk to seniors at expos or symposiums, they can talk until they are blue in the face, and they know that the point is not coming home because people are still sitting there, saying, "Oh, I have known this person for years. It will be fine." That is not true. Look what happened to us.

Senator KOHL. Absolutely.

Ms. MITCHELL. He did my husband's corporate taxes for 22 years and lived two doors from us.

Senator KOHL. Thank you.

Ms. MITCHELL. You are welcome.

Senator KOHL. Mr. Minkow, what eventually led to the discovery of the fraud that you were committing?

Mr. MINKOW. The good work of an investigative reporter at the Los Angeles Times uncovered May 22, 1987, that in the past I had to keep cash-flow coming in to pay off the "Ponzi scheme," had done some credit card overcharging.

So, what happened was, is after that article was printed in the LA Times, I had been on Oprah Winfrey. I had had a lot of positive publicity. Now people started to—and I think it goes to what Mrs. Mitchell was saying—critically look at me. While I used to be able to get around the due diligence process, now they wanted independent proof of profitability, and it eventually led to my demise.

But the point there is not just who, but what the investment was. Normally and regularly, people weren't earning 40 percent gross profit margins in the carpet cleaning restoration business. While I had been able to kind of handle that and the big publicity, young entrepreneur, once they pointed a critical eye at me, I was through.

The number-one thing that we perpetrators can't stand, Senator Kohl, is critical thinking. We want you to love us. We want you to think the best of us. We want you to know that your friend has been getting checks for 5 years on time, and that is all the due diligence we want you to do.

As Mrs. Mitchell said, you have to go deeper than that. You have to look at the industry, check out if the returns are consistent that are being offered in that industry, and do more due diligence. So, to your point. Sorry, long on that answer. Sorry about that.

Senator KOHL. From your perspective, what are the red flags that seniors should be looking for when they are thinking about investing their retirement income?

Mr. MINKOW. Yes. I think, No. 1, the regulation industry, I think seniors and the investment public in general do not know how to define a security under the Howey test, and you don't have to be a lawyer to do it. Basically, people think "security," they think, oh, stock or bond. A security is any time I ask for investment money from Mrs. Mitchell and invest it in widgets or the foreign currency markets or anything, and I am guaranteeing her a certain return, that constitutes a security.

Therefore, I need to be blue skied in every State I am offering it. I need to be a licensed broker/dealer. If I am offering her—and this is almost in every single case—incentivizing the people that are in the deal financially by bringing in their friends. That is how we promote these things.

So, we pay commissions. That is a red flag. Because unless the person bringing in the new investment money is a licensed broker/dealer, they can't receive commissions. So the whole understanding of what a security is.

Second, normally and regularly test. Normally and regularly. Despite all the nice people out there who have been receiving returns, do people in this industry, are they able to generate these kinds of returns? Don Scott, 79-year-old Don Scott, who watched—he was in a factoring deal, and he said they promised him 24 percent to 30 percent a year returns.

He happened to see me doing an interview where I said about factoring, normally and regularly, people in this industry can't afford a cost of capital of 30 percent annually. They just don't have those kind of margins if it is legitimate. Caused him to think critically about his investment. We investigated it, uncovered it, and he got his money back.

So this objective thinking, not the subjective. "My friend brought him to me," that kind of thing. Knowing what a security is. Watch this. Don't invest out of fear or greed. We offer high returns because high returns blind objectivity. We offer fear because we want people to think that they are going to outlive their money, and we will stop at nothing.

Senator KOHL. Good. Well, we thank you very much for your testimony, Mrs. Mitchell and Mr. Minkow. It has been very helpful.

Mr. MINKOW. Thank you.

Senator KOHL. I appreciate your being here today.

Mr. MINKOW. Thank you, sir.

Senator KOHL. So we have a second panel. The first witness on the second panel will be Patty Struck. She is the president of the North American Securities Administrators Association. Ms. Struck also happens to be from my home State of Wisconsin, where she serves as administrator of the Division of Securities with the Wisconsin Department of Financial Institutions.

She will share with us the State security administrator's perspective on the growing problem of senior investment fraud.

Our second witness will be Elisse Walter, who is the executive vice president for regulatory policy and oversight of the National Association of Securities Dealers. NASD serves as the primary private sector regulator of the securities industry. Ms. Walter is here to share with us NASD's efforts to combat senior investment fraud.

Finally, we will be hearing from Susan Wyderko of the Securities and Exchange Commission. She is the acting director of the Division of Investment Management for the SEC. Ms. Wyderko will tell us what the SEC, which is the Federal Government agency charged with regulating the securities industry, what they are doing to stop senior investment fraud.

Thank you, all three of you, for being here. Ms. Struck.

STATEMENT OF PATRICIA D. STRUCK, PRESIDENT, NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC. (NASAA), WASHINGTON, DC

Ms. STRUCK. Senator Kohl and members of the Committee—

Senator KOHL. Do you want to turn on your button?

Ms. STRUCK. Senator Kohl and members of the Committee, I am Patty Struck, and I am honored to be here to highlight the activities of State securities regulators in protecting senior citizens against investment fraud.

Our cases of senior investment fraud may not make national headlines, but they are devastating to the victims and their families. What would any of us do if it were our parents turning over their retirement nest eggs to smooth-talking senior specialists promoting unsuitable investments?

Seniors today are bombarded with pitches for financial seminars. Cold callers, brokers, and insurance agents are all pitching investments to seniors. Many of them are promising higher returns and little or no risk. Unfortunately, in most of the cases that we see, it is just the opposite—high risk and no returns, just devastating losses.

Through seminars, publications, PSAs, and press interviews, my fellow regulators stress how important it is for seniors to call their State regulators, their State securities regulators, as you suggest, Senator Kohl, if they have questions about an investment opportunity or if they suspect they may have been victims of fraud.

We have offices in every State, and a good example is the one that Mrs. Mitchell was talking about, the one in Pennsylvania. Our staffs are trained to respond to all complaints. You can find a list of regulators on the NASAA Web site at www.nasaa.org.

We are currently seeing a flood of troubling senior schemes in three related areas—senior specialists, variable annuities, and unlicensed or unregistered persons. Unfortunately, these three problems often occur at the same time in some senior investment seminars.

State securities regulators are receiving an increasing number of complaints from investors who have been enticed into attending seminars sponsored by certain senior specialists. It is common practice for seniors to receive invitations to a seminar, usually conducted with a meal. At the conclusion, they are encouraged to contact the presenter with further questions.

Typically, the specialist will recommend that seniors sell their stocks in their retirement plans and use the proceeds to purchase variable annuities that the specialist offers. Many senior specialists have little specialized financial training. The NASD's professional designation data base is a useful resource to check out an individual's professional status.

A fixture on NASAA's annual list of top scams involves the sale of variable annuities to investors with little regard to whether or not the product is suitable. While variable annuities are legitimate investments, regulators are concerned that many investors aren't being told about the potential of exposure to market risk, surrender charges, and the steep sales commissions that the agents are earning when they move investors into variable annuities.

NASAA is encouraging changes in State laws that would allow insurance regulators to continue to oversee the insurance companies that sell variable annuities, while authorizing State securities regulators to investigate complaints and take action against the individuals who sell them.

Another problem facing seniors is that of unlicensed sales people pitching securities that are unregistered. Many of the enforcement cases in my written testimony illustrate this twofold violation. NASAA believes the most effective weapon against fraud is a dual approach. We combine aggressive enforcement efforts with financial education to protect investors from unscrupulous individuals.

We were pleased last week when Chairman Cox noted in his speech to the Consumer Federation of America that the States often coordinate their efforts with the SEC to capitalize on the strengths of both State and Federal regulators.

In Wisconsin, Kenneth Hackbarth, an elder in his local church, operated a Ponzi scheme that victimized a total of 117 friends, relatives, and senior parishioners of more than \$6 million. Using a front called Homestead Investments, he told investors their money was being used to buy, rehab, and sell property and promised a 15 percent return.

The problem was Hackbarth never put any of the money into real estate, but just used his investors' money to pay off earlier investors, the hallmark of a Ponzi scheme. We worked with the FBI, and a criminal action resulted in a conviction and a 10-year prison sentence.

State securities regulators believe investor education is a powerful weapon in the fight against investment fraud. A few years ago, NASAA undertook a senior outreach initiative designed to educate seniors to protect themselves from investment fraud.

It involves programs and materials developed by securities regulators at the State level, including brochures, videos, and outreach seminars; an anti-fraud education program called Seniors Against Investment Fraud, which began in California, where senior volunteers conduct presentations in comfortable familiar settings such as community centers, assisted living facilities, and churches; and the Senior Investor Resource Center on the NASAA Web site to serve as a gateway for important investor protection information designed specifically for seniors. The center was launched in 2003 and includes common sense solutions to protect assets from investment fraud.

These are dangerous economic times for seniors. This Committee's examination of investment fraud as it affects the growing senior population is an important step in highlighting the problem and working toward a solution.

Thank you so much for allowing me the opportunity to appear here today.

[The prepared statement of Ms. Struck follows:]



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TESTIMONY OF PATRICIA D. STRUCK

Wisconsin Securities Division Administrator
and
President
North American Securities Administrators Association, Inc.

Before the
Special Committee on Aging
United States Senate

“Protecting Senior Citizens Against Investment Fraud”

March 29, 2006

President: Patricia D. Struck (Wisconsin) • President-Elect: Joseph P. Borg, Esq. (Alabama) • Past-President: Franklin L. Widmann (New Jersey)
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Executive Director: Russel P. Luciano
Ombudsman: Don B. Saxon (Florida)

Chairman Smith, Ranking Member Kohl and Members of the Committee,

I'm Patty Struck, Wisconsin Securities Division Administrator and President of the North American Securities Administrators Association, Inc. (NASAA).¹ I am honored to have the opportunity to appear before your Committee to highlight the activities of state securities regulators in protecting senior citizens against investment fraud.

Overview

The securities administrators in your states are responsible for licensing of firms and investment professionals, registering certain securities offerings, examining broker-dealers and investment advisers, enforcing state securities laws, and providing investor education programs and materials to your constituents. Like me, some of my colleagues are appointed by their Governors and Cabinet officials, ten are appointed by state Secretaries of State and five fall under the jurisdiction of their states' Attorneys General. We are often called the "local cops on the securities beat," and I believe that is an accurate characterization.

My staff and I interact daily with elderly investors. These interactions are often the result of senior investor education seminars or complaints lodged by seniors with my office. In addition to educational initiatives that target seniors, my office works with criminal authorities to prosecute companies and individuals who commit crimes against seniors, and we bring civil actions for injunctions, restitution and penalties against companies and individuals who commit securities fraud. We also educate seniors through publications, videos and seminars so that they are better able to protect themselves. For example, the Financial Literacy Section of the Wisconsin Department of Financial Institutions has developed numerous investor education brochures and related materials on a variety of investment, financial, and consumer education matters. Specifically with regard to outreach to seniors, the Section sponsors numerous outreach activities, including multimedia presentations around the state on the subject of "How Seniors Can Keep from Being Victimized by Investment Fraud."

NASAA's annual Spring Public Policy Forum traditionally focuses on the issues of greatest importance to regulators, the industry and the investing public. This year, given the increased public awareness of our nation's changing demographics, NASAA felt it was important to examine the business, policy and investor protection challenges raised by the growth in our senior population.

While our cases of senior investment fraud may not make national headlines, they are devastating in their impact to the victims and their families. What would you do if your

¹ The oldest international organization devoted to investor protection, the North American Securities Administrators Association, Inc., was founded in 1919. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Canada, Mexico, Puerto Rico and the U.S. Virgin Islands. NASAA is the voice of securities agencies responsible for grass-roots investor protection and efficient capital formation.

mother or father turned over their retirement nest egg to a smooth-talking “senior specialist” who promoted unsuitable investments?

In the United States alone, an American turns 50 once every seven seconds and on January 1, 2006, the first of an estimated 77 million baby boomers, those Americans born from 1946 to 1964, celebrated their 60th birthday. The 50-plus population is the fastest growing segment worldwide and predicted life expectancies are at a historical high.

Boomers have more than \$8.5 trillion in investable assets. Over the next 40 years, they stand to inherit at least \$7 trillion from their parents, research firm Cerulli Associates estimates.

Facing greater responsibility for their financial security stemming from the decline of traditional defined benefit pension plans, and with greater life expectancies, it should be no surprise that retirees today are seeking to maximize their retirement investments.

Investment Fraud Against Seniors

While people age 60 and older make up 15 percent of the U.S. population, they also account for about 30 percent of fraud victims, estimates Consumer Action, a consumer-advocacy group. As baby boomers swell the retiree population, state securities regulators are concerned that financial scams targeting seniors also will rise and based on our collective experience of over seventy-five years of securities regulation we believe our concerns are well-founded. Con artists read the headlines, and they need little encouragement to emerge from the side streets and back alleys to Main Street where older investors live.

Seniors today are bombarded with pitches for financial seminars. There are ads in the newspapers and on the radio. Cold callers, brokers, financial planners, and insurance agents are all pitching investments to seniors. Many of them are promising “higher returns and little or no risk.” Those words are a red flag for investors. Unfortunately, in many of the cases that securities regulators see, it’s just the opposite: high risk and no returns, just devastating losses.

No one knows exactly how many older Americans are victims of investment fraud. Often, older victims don’t report crimes because they don’t want people to know they have lost money or made an unsound investment. Also, they don’t know how or where to complain. Through seminars, publications, public service announcements, and press interviews, my fellow regulators regularly stress how important it is that seniors and all investors should always call their state securities regulator if they have questions about an investment opportunity or if they suspect they have been a victim of investment fraud. We have local offices in every state and our staffs are trained to respond to all complaints. You can find a list of regulators on the NASAA website at www.nasaa.org

Before investing, seniors should first contact their state, territorial, or provincial securities regulator to see if the investment vehicle and the person selling it are registered. Your

state or provincial securities regulator will also be able to tell you if the salesperson has a disciplinary history, that is, whether any civil, criminal or administrative proceedings have been brought against him or her. The best advice is to first call a state securities regulator before investing to check out any product and the person selling it.

Three Noteworthy Trends at the State Level

The targeting of seniors for investment schemes is a chronic problem. My colleagues and I are currently seeing a proliferation of troubling schemes in three related areas: “senior specialists,” variable annuities, and unlicensed/unregistered persons. Unfortunately, these three problems often occur simultaneously at certain senior investment seminars.

Senior Specialists - State securities regulators are receiving an increasing number of complaints from investors who have been enticed into attending seminars sponsored by certain “senior specialists.” While there are organizations whose members must complete rigorous programs of study and pass extensive examinations, there are also organizations that require little or no training in order to use one of these designations. Typically, the designation will indicate that the holder has some form of expertise in assisting seniors in structuring their investments in such a manner as to reduce taxes, minimize risk and avoid state probate laws.

It is common practice for seniors to receive an invitation to a seminar, usually conducted with a meal, such as a prime rib dinner, where, at the conclusion of the seminar attendees are encouraged to contact the presenter with further questions. Typically, the specialist recommends liquidating securities positions and using the proceeds to purchase fixed, indexed or variable annuities products the specialist offers. Under our state securities laws, these recommendations may be viewed as providing investment advice for compensation. In such cases, the “senior specialist” would be offering investment advice as an unregistered investment adviser and, therefore, be subject to enforcement action by regulatory agencies.

State securities regulators have opened 26 cases in the past year involving “senior specialists” in the eastern half of the United States alone. Most of the cases involve securities recommendations by individuals who are not properly licensed by state securities regulators.

A recent enforcement action by Massachusetts securities regulators against Investors Capital Corp. illustrates how a “senior specialist” designation can be used to hoodwink seniors. According to state regulators, one of the firm’s representatives stated during a seminar that his senior specialist designation – received by taking a three-day course or a home course, followed by a multiple-choice exam – indicated that he had been specifically trained to manage and solve financial problems facing seniors. According to the state, the seminar steered investors toward investing in equity-indexed annuities as the best way to participate in stock market gains without risk. Equity-indexed annuities are complex insurance products with high commissions and long holding periods (as well as stiff penalties for early withdrawals), which make them unsuitable for many older

investors. In November, the state charged the firm with misleading investors, especially seniors, into buying equity-indexed annuities.

Variable Annuities - A perennial fixture on NASAA's annual list of top scams involve the sale of variable annuities to investors with little regard to whether or not the product is suitable. While these are legitimate and suitable investments for some, regulators are concerned that many investors aren't being told about high surrender charges for early withdrawals, the potential of exposure to market risk, and the steep sales commissions agents often earn when they move investors into variable annuities. Often pitched to seniors through investment seminars, these products are unsuitable for many retirees. Some investors also are misled with claims of guaranteed returns when variable annuity returns actually are vulnerable to the volatility of the stock market. While variable annuities certainly have benefits – tax-deferral and death benefits among others – they come with strings attached and additional costs. Investors should be aware of these costs and impact of the costs on the performance of these products. High commissions often are the driving force for sales of variable annuities.

Variable annuities are considered to be securities under federal law and the laws of some states. Other states, however, consider variable annuities to be insurance products and others consider them to be both insurance and securities. NASAA is encouraging changes in state laws that would allow state insurance regulators to continue to oversee the insurance companies that sell variable annuities while authorizing state securities regulators to investigate complaints about variable annuities and to take action against the individuals who sell them. These simple statutory amendments are not intended to give states the power to register the products themselves, only to ensure that states securities regulators have the much-needed authority to regulate the agents who sell them.

Most of the sales practice complaints received by state securities regulators involving variable annuities relate to the suitability of the product. While a suitability standard has been proposed, we feel that the commonly accepted methodology for determining the suitability of an investment should be applied. In pertinent part, the standard is as follows:

In recommending to a customer the purchase, sale, or exchange of a security, a broker-dealer, salesperson, investment adviser, or investment adviser representative must have reasonable grounds for believing that the recommendation is suitable for the customer upon the basis of the facts, if any, disclosed by the customer as to his or her other security holdings and as to his or her financial situation and needs.

Unregistered/Unlicensed Individuals - Another problem area inundating state regulators is unlicensed securities sellers pitching securities that are unregistered. Individuals who sell securities or provide investment advice are required to earn a license by passing rigorous examinations before they can offer their services to the public. Those who bypass this requirement often are predators offering bogus investments. Unlicensed people selling

unregistered securities should be a red alert for investors. Con artists also frequently use the promise of high commissions to lure some insurance agents, investment advisers, accountants, and lawyers who are not licensed to sell securities into selling investments they may know little about, such as bogus limited partnerships or promissory notes. Many of the enforcement cases described below illustrate the twofold violation of persons not licensed with their state securities regulators selling unlicensed products.

I return to the simple advice that could help seniors and all investors avoid the pitfalls of investment fraud: call your state securities regulators before investing. We're there to help educate investors about their rights and to provide the tools and knowledge needed to make informed financial decisions.

Enforcement and Education

So what can be done to combat investment fraud against seniors? State securities regulators believe the most effective weapon against fraud is a dual approach: combine aggressive enforcement efforts with financial education to protect investors from unscrupulous individuals.

State securities regulators have a long history of protecting investors at the local level day in and day out. Enforcement against fraud is the essence of what state and provincial regulators do – to vigorously pursue sales practice abuses and a variety of scams and frauds against unsuspecting senior investors. The following cases illustrate the work being conducted by state securities regulators on a daily basis to protect seniors from investment fraud.

In my own state of Wisconsin, Kenneth Hackbarth, an elder in his local church in Kenosha WI, operated a long-running Ponzi scheme that victimized a total of 117 friends, relatives and parishioners (mostly seniors) of over \$6 million. Two of the fraud victims committed suicide from being so financially devastated by the fraud. Using a front called Homestead Investments, Hackbarth told investors that their money was being used to buy, rehab and sell commercial and residential property, promising a 15% return on the investment notes. Hackbarth never put any of the money into real estate (although he made large donations to the church). Rather, he just used new investors' money to pay off earlier investors -- the hallmark of a Ponzi scheme. The Wisconsin Securities Division issued a Cease & Desist Order and worked with the FBI in a criminal action resulting in a conviction and 10-year prison sentence. This case is also a good example of the affinity fraud aspect that appears so often in the Division's enforcement cases targeting senior investors.

Colorado - Over the years, the Colorado Division of Securities has investigated a number of securities cases involving the exploitation of senior citizens. For instance, in one case, a licensed insurance agent in Colorado took over \$760,000 from at least 12 investors who ranged in age between their mid-50's and mid-80's. He sold his victims promissory notes through fraudulent misrepresentations and omission about risks and returns. In a more recent case, another insurance agent defrauded 65 senior citizens through the sale of

callable Certificates of Deposit. Both of these cases resulted in criminal prosecution by the Colorado Attorney General's Office.

Florida - Just last week, Florida state officials announced that they have dismantled an Orlando based company, Tropical Village, Inc., they say defrauded elderly investors of more than \$9 million through the sale of unregistered securities. The perpetrators targeted 80 wealthy elderly investors, convincing them to invest their money in apartment complexes in several Florida cities, as well as in Texas and Georgia. Instead, more than \$8 million of the seniors' money was diverted to the perpetrators' personal use.

Maine - In one case, an insurance sales person from Texas sold Maine senior citizens \$1,000,000 worth of securities in the form of promissory notes and investment contracts issued by start-up companies. He was not licensed to sell these products, the products were not registered, and he did not disclose the risks of investing in a start-up company to the investors. Most of these investors were retired, had no investing experience, and invested funds that they needed for living expenses. When the start-up companies failed, the investors lost everything. Through the state Attorney General's Office, the Maine Securities Division prosecuted the sales person, who was convicted of securities fraud and several other securities violations and sentenced to two years in prison. Unfortunately, the victims will never recover their losses.

Missouri - In a recent action, the Securities Division of the Secretary of State's office took enforcement action against a securities agent and the broker-dealer with which he was employed, who had developed a relationship with a large company in St. Louis, Missouri. The agent, who handled the accounts of many retired workers, traded aggressively in accounts of these unsophisticated retirees' and the broker-dealer failed to adequately supervise the agent. These retirees lost millions of dollars in their retirement accounts. A consent order requiring a large fine and restitution was eventually reached.

In a similar matter, a securities agent with a broker-dealer found newspapers announcing a list of retirees from a large Kansas City firm and called these recent retirees. The agent convinced the retirees to purchase mutual funds, and after they lost money in these accounts he switched these customers to variable annuities. Some of these retirees were switched several times resulting in extremely large surrender fees paid by the retirees and large commissions paid to the agent. The Missouri Securities Division is preparing to take administrative action against the agent and the broker-dealer.

Montana - The State Auditor personally prosecuted the largest securities case in the state's history in 2003, and in 2005 the Office assisted with the federal case against the broker. Tom O'Neill was a securities salesperson for USBancorp/Piper Jaffray in Butte, Montana. Over the course of a four-year period, Tom victimized at least 38 of his clients, most of whom were elderly, widowed or disabled. During this period, Tom executed in excess of 6,000 unauthorized trades in primarily technology stocks in their accounts, charging in excess of \$600,000 in commission and causing losses in excess of \$1 million. One of the victims, a 92-year-old man, had seven speculative trades in his account while he was in a coma and a final trade in his account hours after he had died. The State

Auditor's Office took action against Tom, his branch manager, and the company Piper Jaffray, as well as Piper's management team. Piper subsequently settled the matter with the State Auditor's Office. The settlement included restitution to the 38 victims in the amount of \$1.5 million, a \$1 million fine and an agreement to change its bonus structure so as not to reward salespeople who were the subject of complaints or regulatory actions. With the assistance of the State Auditor's Office, O'Neil was charged by the United States Attorney's Office and is currently serving a term in federal prison.

Oregon - Last year, an Oregon senior was convinced to give her entire retirement savings of \$250,000 to an investment adviser who, in turn, lost the entire amount. The Oregon Division of Finance and Corporate Securities, which has seen an increase in unlicensed investment adviser activity, resolved the case through a consent order.

Pennsylvania - The Pennsylvania Securities Commission issued a cease and desist order in June 2005 against the Association of Senior Counselors and an agent to halt the offer and sale of unregistered securities. According to the state, the agent appeared at a senior's home with materials saying he had "credentials you can trust" and "increase your income: while "avoid[ing] risk." An investigation determined that the agent had been charged in Connecticut in 2004 with selling unregistered securities and failing to register as an agent of a securities issuer in connection with the alleged sale of promissory notes.

Texas - In the last two years there has been an enormous problem in Texas with unregistered schemes being sold to elderly investors. These schemes include currency trading programs, promissory notes, viatical settlements, resort timeshare investments and equipment leaseback schemes involving internet kiosks, card readers, and ATM machines. The losses to Texans are estimated to be in the hundreds of millions of dollars. The bait is that the "income" will be "guaranteed" and will be substantially higher than what persons living on fixed incomes can expect to get from certificates of deposit, money market investments or other mainstream financial products.

Promoters of the schemes have been recruiting independent insurance agents and others through advertisements, mailing lists, trade organizations, internet websites, and by word-of-mouth. Agents are often falsely told that the schemes do not involve the sale of securities, are not regulated by state or federal law, and are "safe" or "guaranteed." Generally, lucrative sales incentives or commissions are offered.

Texas securities regulators have sent warning letters to approximately 300 agents that have been identified thus far and have initiated numerous criminal actions.

Investor Education and Senior Outreach Initiatives

State, territorial, and provincial securities regulators believe investor education is a powerful weapon in the fight against investment fraud. For that reason, we actively provide resources to help older investors better educate and protect themselves against investment fraud. Recognizing the value and impact of financial education, NASAA's Board of Directors elevated investor education to Section status in 1997 to help support the ongoing financial education efforts of our members.

Several years ago, a separate Senior Outreach Project Group was created to administer educational campaigns to help fight investment fraud and scams targeted at seniors. State securities administrators from around the country have undertaken a Senior Outreach Initiative that is designed to educate seniors to protect themselves from investment fraud.

The Senior Outreach Initiative involves:

- Promoting programs and materials developed by state securities regulators that include brochures, videos, and outreach seminars presented to organizations such as the Golden Kiwanis and Senior VFW groups.
- Participation as an exhibitor in the 2005 Summer National Senior Olympics. The event drew between 12,000 and 15,000 senior athletes to the southwestern Pennsylvania area and more than 25,000 spectators. NASAA partnered with the Pennsylvania Securities Commission to distribute thousands of investment fraud prevention brochures and fielded hundreds of investor protection-related questions from event attendees.
- Developing an anti-fraud education program that utilizes volunteer/peer group educators and networks. This program is based on highly successful initiatives that have been launched in California and Ontario. The blueprint for this program allows states securities regulators to tailor it and effectively launch it in their own jurisdictions. For example, the proven effectiveness of a comprehensive anti-fraud program begun in California called Seniors Against Investment Fraud, or SAIF, has led to adoption by other states, such as Florida, Pennsylvania and Iowa. In the SAIF model, senior volunteers/peer educators conduct presentations in comfortable, familiar settings such as senior community centers, assisted living facilities and churches investment scams. The program involves training the trainers to conduct the presentations and includes a tool kit and resource guide.
- Educating attendees at the American Society on Aging and the National Council on the Aging's 2006 joint conference. Project group members actively participated in the conference, addressing a workshop entitled "Preying on the Elderly: A Session on Financial Abuse," which featured high-profile speakers (such as an Assistant US Attorney and an FBI agent) involved in combating investment fraud against seniors. The more than 4,000 professionals in attendance at the conference come into contact with senior citizens on a daily basis; reaching thousands of those professionals with the investor protection message and materials in turn potentially reaches hundreds of thousands of seniors.
- Creating an Investment Fraud Bingo Game that delivers important investment protection messages in a fun and interactive format. The game, easy to administer and well received by seniors, is an ideal program for states with limited resources.

The program is in use by several states, including Texas, Pennsylvania, Indiana and Florida.

- Forming strategic partnerships with federal, state and local aging networks, including the AARP and US Administration on Aging. Other partnerships under consideration or active engagement include the Retired Senior Volunteer Program and the Investor Protection Trust.
- Developing the Senior Investor Resource Center on the NASAA website to serve as a gateway for important investor protection information designed specifically for seniors. The center, sponsored by NASAA and launched in 2003, includes:
 - A checklist of questions seniors should ask before making an investment decision;
 - Common sense solutions to protect assets from investment fraud;
 - Information about the current top frauds targeting seniors;
 - Contact information for securities regulators in each of the 50 states, the District of Columbia, Puerto Rico, Canada, Mexico, and the U.S. Virgin Islands;
 - An Investors Bill of Rights and interactive fraud awareness quiz and links to investor education publications and programs offered by state securities regulators and others to help seniors fight investment fraud.

Attached to my written testimony is a compilation of various state investor education outreach programs intended for seniors, and examples of printed materials that are used as newspaper inserts, and distributed at various town hall meetings and community centers throughout the year.

Conclusion

These are dangerous economic times for seniors. Now, more than ever, all American investors – and especially senior investors – need more, not fewer cops on the securities beat. This Committee's examination of investment fraud as it affects the growing senior population is an important step in highlighting the problem and working toward a solution. My office and other State Securities Administrators will continue to play an active role in protecting seniors whether it is a large multi-million dollar scam or a single defrauded senior.

I thank the Chairman and each member of this Committee for allowing me the opportunity to appear today. I look forward to answering any questions you have and providing additional assistance to you in the future.

**NASAA Jurisdictions that self-reported having
outreach programs for seniors.
(As of 10/19/2005)**

Alabama

In an effort to reach out to middle age and older Alabamians, the Alabama Securities Commission will participate in the following activities throughout 2006.

- Partner with AARP and the Alabama Extension Systems to put on "Investor University" events in cities and rural areas. This seminar event teaches topics concerning wise saving and investing practices, provides educational materials to attendees, addresses topics like reverse mortgages and variable annuities. (Birmingham event had 200 attendees in February. In April an event is planned in Huntsville and in May an event is projected for Mobile.) After this events will target rural communities in Alabama.
- Partner with the Alabama Attorney General's office and the Alabama Department of Senior Services (for the 3rd consecutive year) to develop fraud prevention activities throughout the state of Alabama in April 2006.
- ASC will attend and exhibit at the Alabama Gerontological Society conference in Birmingham, AL, in March 2006.
- ASC will display and provide materials to over 10,000 attendees at the Senior Expo conference in Huntsville, AL in May 2006.
- Participate on annual Medicare Van Tour (3rd consecutive year) prior to Thanksgiving to reach Senior citizens throughout rural areas of Alabama and provide securities fraud prevention training and materials.
- ASC has applied for a grant from IPT to put on a monthly television broadcast on Alabama Public TV for Seniors. This would be the second consecutive year to reach citizens throughout the state.

Arizona

The state of Arizona has developed a program entitled *Until Money Grows on Trees, Verify Before You Buy*. The state is sponsoring presentations and town hall meetings with state legislators to promote this program, which is designed to educate citizens about financial fraud and how to protect their finances. The state has received a 3-year IPT grant for their state investor education program.

Arizona is also working on producing a DVD to be distributed statewide that will aim to have a "reverse boiler room" effect by calling out to inform people about fraud alerts. The state is also investigating using pharmacy prescription stuffers and/or utility bill stuffers for seniors (in a joint effort with AARP) to get information out about financial fraud a ways to protect oneself.

British Columbia

British Columbia has several initiatives as part of its investor education program, including the following:

BC Coalition to Eliminate Abuse of Seniors is a provincial organization supported by the BCSC Education Fund to deliver *Protect Your Money*, a lively seminar by seniors for seniors to help them learn how to protect themselves from fraud and unsuitable investments. BC CEAS has been funded to reach 1,500 seniors in the Vancouver-lower mainland area. During this free, informative, one-hour presentation, seniors are shown by the Coalition's trained, volunteer senior speakers, how to protect their hard-earned money by:

- spotting the red flags common to most frauds committed against seniors,
- contacting the BC Securities Commission for information about advisers, various types of investments and other tips,
- using a valuable, free Investor Education kit produced by Canada's securities regulators, and
- knowing where to get other information they can use to protect themselves

California

The Seniors Against Investment Fraud (SAIF) Program is a statewide outreach campaign under the California Department of Corporations. The primary purpose of SAIF is to alert and educate Californians over the age of 50 about investment and telemarketing fraud crimes and how to avoid being victimized by scam artists.

- SAIF includes a dedicated Advisory Committee of state and local agencies, senior advocacy and consumer groups, and senior volunteers who work together to assist in the oversight and promotion of the program.
- SAIF trains and utilizes hundreds of committed senior volunteers to serve as "local trainers" and "local ambassadors" who carry the message to seniors throughout their communities.
- SAIF targets California consumers over the age of 50 with information aimed at preventing fraudulent scams and investment and telemarketing practices.

Florida

The Florida Office of the Attorney General has developed "Florida Seniors Against Investment Fraud (FSAIF)." FSAIF is a new program that works with Seniors vs. Crime, a program that provides seniors with information on identifying and reporting fraud, in order to protect oneself from fraud. The program uses a grassroots "train the trainer" approach and utilizes the Seniors vs. Crime regional directors and state Senior Sleuths to give FSAIF presentations in appropriate communities and to disseminate outreach materials. A toll-free consumer call center will handle inquiries and direct consumers to the correct state or federal agency.

Your Money, Your Life — Be a Smart Investor: Verify Before You Buy is the second phase of a statewide public education and awareness campaign called *Your Money, Your Life*. The *Verify Before You Buy* message, sponsored by an IPT grant, is focused on promoting investor education among Floridians of all ages and economic levels, and protecting investors from financial scams. The *Verify Before You Buy* initiative includes 1) statewide radio and television public service announcements, 2) billboard advertising, 3) brochures on smart investing, affinity fraud, and investing for seniors, 4) an interactive website for potential investors to find important resources and use an on-line tool to search and verify that a broker or company is licensed, 5) an essay contest to promote smart investing skills among Florida teens, and 6) has been incorporated into nearly 1,000 outreach presentations around the state, reaching more than 86,000 consumers. Florida's public service announcements were replicated from creative and visually appealing PSAs used in Pennsylvania and then modified with Florida-specific information. The first 30-second ad features an elderly woman who lost money after being pressured to invest on the spot with someone who was "so nice" to her. The second features an elderly African-American man who laments being scammed after investing in what was supposed to be a "sure thing." Both ads close with the message "Verify Before You Buy" and point viewers to the department's website and toll-free consumer helpline.

Hawaii

Hawaii has begun placing on-screen movie advertisements in theaters across the state. A slide asks theatergoers "Have you been promised more on your money but lost your life savings?" and shows a picture of a senior couple reviewing their papers. Information on how to report investor fraud is provided on the slide. It is also in the process of creating three television PSAs. Hawaii is in the process of visiting every senior center and senior living facility in the state to provide financial educational materials and presentations. It seeks to work with various nonprofit and government agencies in creating a once-a-month series of presentations on a rotating basis. The state has also redesigned its Investor Education web page in order to make it more user friendly.

Idaho

Idaho has produced senior conference on investor education, and is actively participating in April as Financial Literacy Month. It has been giving presentations in senior centers throughout the state. The state Securities Bureau has worked to make the "Wall Street Journal Guide to Understanding Personal Finance" available at all conferences of its financial literacy conferences.

Illinois

Illinois's financial literacy programs for seniors include both presentations at senior centers and informational booths at senior Health Expos. The state is adopting parts of the California SAIF program for use with senior groups. Its quarterly newsletter, *Securities Bulletin*, is mailed free to all secondary schools, police and sheriff's departments as well as all registered broker-dealer firms and investment adviser firms in the state (as well as all NASAA members). Illinois is looking to further modify its website to reach out better to senior investors. It is beginning to work to encourage banks to provide investor education seminars for their customers. The state intends to get more involved with businesses and companies to provide investor education and protection components at retirement planning seminars.

Massachusetts

The commonwealth has sent a mass mailing (letter and brochure) to senior citizens seeking to educate them about variable annuities. It has sent representatives to senior centers to speak about variable annuities. The state is also supporting the IPT's "MoneyTrack" series airing on public television.

Montana

The State Auditor's Office in Montana has been diligent in its efforts to combat fraud and improve consumer education in the state. The State Auditor's Office has been heavily involved in outreach. The office teamed up with other community partners for "Consumer Fraud Summits." The all day events provided speakers and resources on a vast array of consumer fraud issues. State Auditor John Morrison was the luncheon speaker and talked about the importance of investor education and offered tips on how seniors can protect themselves. The State Auditor's Office held a breakout session in the afternoons teaching people how to recognize scams and protect themselves from investment fraud. Hundreds of seniors and other consumers attended these events. Four events have been completed so far this year and the coalition will be holding more in the summer. This April, the State Auditor's Office will be holding presentations in senior centers across the state to promote "Financial Literacy Month." This program is designed to specifically outreach to seniors and to help them protect themselves. The presentations will include information on the most common scams affecting seniors and how to combat them.

Nevada

The state is working with Jump\$tart to provide teacher training in financial literacy. They are also developing training programs with the Catholic Charities' Senior Division for service providers who work with seniors in need, and are developing a senior-specific handout seniors can use to better protect themselves from fraud, complete with the right questions for seniors to ask of brokers.

New Hampshire

New Hampshire negotiated a \$5 million dollar securities settlement with the Tyco Corporation in 2003. The settlement stipulated that the settlement be used for investor education. With the settlement money, the state established the Center for Public Responsibility and Corporate Citizenship. Bureau of Securities Director Mark Connolly sits on the Center's Board of Directors and Secretary of State William Gardner serves as its Chairman.

In recent months the Center awarded a \$250,000 grant to the New Hampshire Jump\$tart Coalition. This funding will be used to substantially expand Jump\$tart's financial literacy programs for students. The Center also awarded a grant to the business school at The University of New Hampshire for the purpose of designing and implementing a series of educational seminars to be held across the state in coming years. In addition, the Center hopes to help establish and fund a corporate governance program within the University of New Hampshire. The state also continues to run PSAs targeting senior investors on New Hampshire public television.

New Jersey

The New Jersey Bureau of Securities has recently implemented a new program called the "New Jersey Investor Education and Protection Program." The Bureau has developed a multi-pronged statewide project in an attempt to arm citizens with investor education and protection messages. Outreach methods include Radio and TV public service announcements (PSAs), billboard advertising, direct mail to seniors, Consumer University for teens, and an interactive investor protection website program. In addition, the Bureau is developing and distributing printed investor education mini-guides. The outreach will also serve to increase awareness of the New Jersey Bureau of Securities and the services they can provide to New Jersey investors.

New York

New York has recently expanded its outreach program, especially to seniors. The Investment Protection Bureau now has new packages of investor education handouts and has developed speaker's materials for use by staff for investor protection presentations. The Bureau is also in the early stages of planning a full day Town Meeting style program for 2006 with a state law school.

Ohio

Ohio's Division of Securities continues to hold free informational seminars on financial literacy around the state. Titled "Buy Smart, Borrow Smart, and Invest Smart," the educational events are promoted in the community and last approximately two hours with speakers from the various agencies providing presentations.

Ohio recently sent letters to teachers, civic groups and senior citizen centers informing them of the availability of speakers from the agency. During the first six months of 2005, the agency gave 51 presentations to senior groups and had a total attendance of over 23-00. One such event was at the Adams County Senior Center Fair, which was attended by 385 seniors. The state plans on giving more presentations in the future.

The Division of Securities was in attendance at the Summer 2005 Ohio State Fair, which was attended by over 800,000 Ohioans. The agency also held an educational Ohio Securities Conference in October. The event will be open to the public.

Oregon

The Oregon Investor Information Coordinator constantly crisscrosses the state making presentations to senior centers, assisted living facilities, community meetings at libraries and colleges, and civic clubs (Kiwanis, Rotary, Lions, etc.), among others. The state is also working on PSA campaign, and a CCTV/cable access initiative to disseminate investor education information to underserved areas of Oregon. During the summer of 2006, Oregon plans on hosting a series of "Financial Fridays" lunch presentations from various financial related speakers for state workers outside on the capital mall.

Pennsylvania

Pennsylvania has produced an educational series for the state's public television system called MoneyTrack that features real people dealing with real financial and investment issues. The topics covered include how mutual funds work and how they charge fees, how to identify and avoid common investment scams (especially for seniors), investing versus gambling, resources for economically disadvantaged families, understanding investment research, how to decide whether you need a financial advisor and how to choose an advisor, corporate behavior and explanation how investors are protected, managing your credit, planning for retirement, financing long-term care, long-term care explained, as well as many others. It has also offered *Money Matters* seminars targeted directly towards seniors, run by representatives of the Pennsylvania Securities Commission.

Tennessee

Tennessee's Securities Division is working with other state agencies to produce Consumer Services Workshops across the state. These workshops draw attendees of all ages, from high school students, middle-aged adults and senior citizens. They also have attendees from banking, senior care and teaching professions.

Texas

Texas is doing presentations across the state for individual groups as well as speaker and panel participation at conferences such as the Texas Retired Teachers Association and the Conference on Aging. This is the second year for the agency to participate as an exhibitor at these two conferences, which has lead to them being invited to participate at senior fairs and expos statewide.

Utah


The Utah Division of Securities, in conjunction with the Utah Division of Consumer Protection, Utah Attorney General, and AARP Utah, is conducting a series of *Consumer Education Summits* designed to educate seniors and other citizens about the issues of securities fraud, identity theft, charitable solicitations, and mail/telephone solicitations. The Utah Division of Securities will have held 20-30 events by April 2006. The summits will range in size from as few as 10 people in rural Utah to 200 people in Salt Lake City.

Wisconsin

The Financial Literacy Section of the Wisconsin Department of Financial Institutions has developed numerous investor education brochures and related materials on a variety of investment, financial, and consumer education matters. Specifically with regard to outreach to seniors, the Section sponsors numerous outreach activities, including multi-media presentations around the state on the specific subject of "How Seniors Can Keep from Being Victimized by Investment Fraud."

Wisconsin is involved as a participating state in a recently announced (February 2006) national investor education initiative directed specifically at seniors entitled the "Campaign for Wise and Safe Investing." It is a joint program of the National Office of the American Association of Retired Persons ("AARP") and the Investor Protection Trust ("IPT") that is providing funding to a coalition of 30 states to provide much-needed investor education and protection to age 50+ investors and potential investors. Participating states will be able to use all of the materials developed at the national level and will collaborate with their respective AARP state offices to develop a quality state campaign to bring investor education and protection to the senior citizens in their states.

The National Campaign materials will begin to be released to participating states in April. The Financial Literacy Section of Wisconsin's Department of Financial Institutions already has had its initial planning meeting with representatives of the Wisconsin AARP Office to organize five major "Events" focusing on financial education for seniors to take place in separate major population areas in Wisconsin beginning this fall.



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Senior Investor Resource Center

[printer-friendly page](#)

Welcome to NASAA's Senior Investor Resource Center.

As your first line of defense against investment fraud, NASAA members have far too many stories of scam artists who prey on unsuspecting seniors by offering "too good to be true" investment schemes. Although many of the firms and individuals behind these schemes are prosecuted, we cannot guarantee that not become a victim.

Don't be a target.

Education and awareness are your best weapons in the fight against investment fraud. As the oldest international investor protection organization, NASAA is to provide the tools you can use to protect yourself against investment fraud.

RESOURCES

<p>▶ INVESTigate A quick checklist of questions to ask before you invest.</p>	<p>▶ 10 Tips to Protect Your Nestegg Ten common sense solutions to avoid investment fraud.</p>
<p>▶ Investor Quiz Test your investment knowledge with this quick quiz.</p>	<p>▶ Top Investor Traps Learn how you can be separated from money.</p>
<p>▶ Helpful Sites Useful resources from NASAA members.</p>	<p>▶ Investor Bill of Rights Know your rights as an investor.</p>
<p>▶ Other Resources NASAA's library of investor awareness materials.</p>	<p>▶ Who to Call A state-by-state list of contact information for your state or provincial securities regulator.</p>

ALABAMA SECURITIES COMMISSION

770 WASHINGTON AVENUE, SUITE 570
MONTGOMERY, ALABAMA 36130-4700

Telephone: (334) 242-2984 or 1-800-222-1253

Fax: (334) 242-0240

Email: asc@asc.alabama.gov

Website: www.asc.state.al.us



SENIORS "TAKE CONTROL" AND PROTECT YOURSELF FROM BECOMING A VICTIM OF SECURITIES FRAUD

1. Don't be a "courtesy victim." You may be from a generation that was taught to be courteous at all times to phone callers, as well as people who visit you at home. Con artists will not hesitate to exploit the good manners of a potential victim. **When a stranger asks for your money, you should proceed with the utmost caution.** You are under absolutely no obligation to stay on the telephone with a stranger or allow them in your home. In these circumstances, it is not impolite to explain that you are not interested and hang up the phone or ask a stranger to leave your premises. If you are lonely and in need of companionship, don't make the mistake of seeking it from someone whose only real interest is to get his or her hands on your money.
2. Say "no" to any investment professional or con artists who presses you to make an immediate decision. **Before investing check out the salesperson, firm and the investment opportunity itself.** Extensive background information on investment salespeople and firms is available by contacting the Alabama Securities Commission. Almost all investment opportunities must be registered for sale in the state in which you live. Your state securities agency can tell you if the investment opportunity is properly registered. Before you part with your hard-earned savings, get written information about the investment opportunity, review it carefully, and make sure that you understand all the risks involved.
3. Always stay in charge of your money. A stockbroker, financial planner or telemarketing con artist who wants your money will be more than happy to assure you that he or she can handle everything, thereby relieving you of the need to watch over and protect your nest egg. Beware of any financial professional who suggests putting your money into something you don't understand or who urges that you leave everything in his or her hands. **Constant vigilance is a necessary part of being an investor.** If you understand little about the world of investments, take the time to educate yourself or involve a family member or a professional, such as your banker, before trusting a stranger who wants you to turn over your money and then sit back and wait for results.
4. Watch out for salespeople who prey on your fears. Con artists know that many Americans worry they will either outlive their savings or see all of their financial resources vanish overnight as the result of a catastrophic event, such as a costly hospitalization. Swindlers and abusive salespeople often pitch schemes as an opportunity for you to build up life savings to the point where such fears are no longer necessary. **Remember that fear and greed can cloud your good judgment and leave you in a much worse financial posture.** An investment that is right for you will make sense because you understand it and feel comfortable with the degree of risk involved.
5. Don't let embarrassment or fear keep you from reporting investment fraud or abuse. People who fail to report that they have been victimized in financial schemes often hesitate out of fear or embarrassment that they will be judged

incapable of handling their own affairs. Some senior citizens have indicated that they fear that their victimization will be viewed as grounds for forced institutionalization in a nursing home or other facility. **If you think you have been scammed, the sooner you contact ASC the greater the chance of stopping the fraudster and regaining some of your lost money.**

6. Beware of "reload" scams. Younger victims who are ripped off by swindlers have time to pick themselves up and restore some or all of their losses through new earnings. Most older victims have a finite amount of money that is unlikely to be replenished in the event of fraud. **The result is a panic that is well known to con artists, who have developed schemes to take a "second bite" out of senior citizens who already have been victimized.** Faced with a loss of funds, some senior citizens will go along with another scheme (allowing themselves to, in effect, be reloaded) in which the con artists promise to make good on the original funds that were lost... and possibly even generate new returns beyond those originally promised. When a significant loss occurs contact ASC to check out the person who invested your money before investing more.

Contact ASC for inquiries regarding securities broker-dealers, agents, investment advisers, investment adviser representatives, and financial planners, the registration status of securities, to report suspected fraud, or obtain consumer information. Call: 1-800-222-1253 Fax: 1-334-242-0240 Email: asc@asc.alabama.gov

Write: Alabama Securities Commission
770 Washington Avenue, Suite 570
Montgomery, Alabama 36130-4700

The internet is a great source of free investment information the ASC website at: www.asc.state.al.us

Message from the Director, Joseph P. Borg

Dear Investor,

The Alabama Securities Commission (ASC) regulates the securities industry in Alabama.

ASC is committed to protect investors against securities fraud and provides aggressive enforcement actions against any firm or individual who has violated the Alabama Securities Act or other state and federal statutes to the detriment of Alabama investors.

The Alabama Securities Act provides for the licensing and regulation of securities broker-dealers, agents, investment advisers and investment adviser representatives, and financial planners. ASC regulates the individual securities through registration. All of the above entities must be registered with the ASC to conduct business in Alabama unless subject to a statutory exemption from registration.

ASC promotes financial literacy to all citizens and students in Alabama by providing presentations, free information and access to curriculum for financial literacy education.

Prepare yourself to make an informed investment decision! Contact the Alabama Securities Commission to determine if the representative and firm with whom you wish to do business are properly registered in Alabama. Also, the Commission staff can provide free information relating to the disciplinary history (complaints, civil law suits, etc.), educational background and work experience of a firm or representative.



Sincerely,

Joseph P. Borg
Director

Advice for Delaware Investors

Planning for the future, saving money, and making careful investments are smart moves. Most financial professionals are honest and most investments are legitimate. Some are not. Dishonest sales practices and securities fraud are serious problems. One purpose of the securities laws (also called "Blue Sky laws") is to ensure that investors are given information concerning all risks before they make an investment decision. Many problems and losses can be avoided by taking time to carefully review and evaluate possible investments.

Before You Invest

Set Goals. Whether you invest on your own or with the help of a financial professional, understanding your personal financial needs and setting goals are the first steps in selecting investments that are right for you.

Make a list of your financial goals. Be specific. Estimate dollar amounts needed for each goal when possible. Create a time line to chart the dates by which you hope to achieve each goal. Write down any concerns you may have about investment risks. Use these criteria as a guide when you begin researching different investment opportunities.

Tip: Set specific goals to keep your investments on target. Be wary of investment opportunities that seem too good to be true.

Review Your Budget. Review your household budget and decide how much money you can afford to

invest. This will determine the amount of risk you are able to assume. If an investment will affect your ability to meet your regular living expenses, it may not be suitable for you. If you choose to assume more risk, consider how a loss would affect your budget should the investment fail to perform as expected.

Research Investments. Request written information describing each investment that you are considering and read it thoroughly. Pay attention to how your money will be used, the terms of the contract, fees, and any potential conflicts of interest. Avoid investing on the basis of "inside information" or rumors of future company actions that may never take place. If you have questions or concerns, contact the salesperson and request that the answers be put in writing. If you cannot obtain any written information or notice inconsistencies in the sales pitch, avoid the investment.

Tip: All investments have risks. Do not sign an investment contract until you understand and agree to all of the terms.

Do a Background Check. Before you make your first payment to the salesperson or investment company, take time to do a background check. Contact the Delaware Securities Commissioner to verify that the salesperson is licensed to sell securities and that the investment has been registered for sale in Delaware, even if the offer is from

another state. Agency staff can tell you if there have been disciplinary actions taken against the salesperson or company due to a violation of state and/or federal securities laws. This is a free service. Call the Delaware Securities Division at (302) 577-8935.

After You Invest

Keep Good Records. Like careful planning, good record-keeping is also an important part of investing. It will help you stay involved with and in control of your investments. Accurate records can document "your side of the story" in the event you ever experience problems with a salesperson or investment company.

Take notes. Write down the name of each investment that you make and how to contact the salesperson or company. Note the dates and times of communications with your broker and record any actions that affect your account(s).

Read account statements. Verify that all transactions were completed accurately. If you do not receive regular statements, contact the salesperson or company. **Report problems immediately.** If you discover unusual or suspicious activity in your account(s), contact the salesperson or investment company in writing. Use your notes and records to support your claim. If the problem persists, notify the Delaware Securities Commissioner.

Tip: Keep all of your account statements, notes, and other investment records in a file for future reference.

Investor Alert!

The techniques listed below are examples of misleading or dishonest sales practices. If you experience any of these, contact the Delaware Securities Commissioner for more information before you invest.

■ Unsolicited offers from strangers via the telephone, mail, or Internet.

■ Claims of a "guaranteed" profit or that an investment is "risk-free" because it is "insured" by an outside company.

■ "Gift," "retirement," or "support" clubs that require you to make a cash "contribution" (investment) and recruit new members (investors).

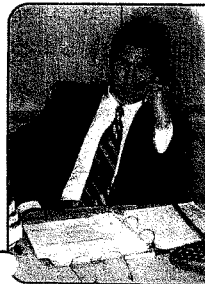
■ Investment deals involving "prime" or "world" banks or overseas funding sources.

■ A salesperson who relies on strong emotions or personal beliefs to gain your trust and influence (or pressure) your investment decisions.

■ A salesperson who borrows money from you or loans money to you in order to get in on an investment.

■ A salesperson who is reluctant to let you sell out of an investment or who offers to "make up" any losses with a new investment opportunity.

If you suspect problems with an investment, notify the Delaware Securities Commissioner at (302) 577-8424. You may be able to help keep others from becoming victims of fraud.



Checking Out Your Investment Professional

Before you choose an investment professional to manage your life savings, you owe it to yourself to check his or her background. The Delaware Division of Securities offers this service to Delaware investors. Our office has access to national databases which contain information on securities

brokers, investment advisers, and the firms where they work. This information includes employment history, education level, client complaints, disciplinary history and regulatory action against the firm or the investment professional. If you are a Delaware resident and would like to receive this information free of charge, please call (302) 577-8935.



State of Delaware
Department of Justice

What to Expect at Lunchtime Investment Seminars: There's No Such Thing as a Free Lunch

Many seniors receive invitations in the mail to free lunch or dinner seminars sponsored by brokers or financial advisers. The invitations usually describe the meetings as no-obligation opportunities to learn about new investment services or products. A lunch or dinner meeting is one way that financial professionals reach out in the community to find new clients; you are getting your "free" meal in exchange for your time and attention to the sales pitch. While the vast majority of people who host these free meetings are honest, hardworking individuals, the Delaware Attorney General's Office wants you to be aware that, on occasion, improper sales practices do occur during these investment sales pitches. Here are some tips for savvy seniors who plan to attend these seminars:

Proper Registration

Find out whether the seminar promoter and products (mutual funds, stocks, and so on) are properly registered to do business in the State of Delaware. Call the Attorney General's Office - Securities Unit before you go to the seminar at (302) 577-8935 to get this information. If the seminar promoters are properly registered, we can give you their disciplinary history. If they are not properly registered, chances are that you are better off dealing with someone else. Don't judge a book by its cover. Just because the seminar promoters seem competent and ethical doesn't necessarily mean that they are.

Fees and Penalties

It is important to always ask about fees, commissions and penalties that could be incurred if you switch to a different investment professional. Make sure that the seminar promoter explains all fees involved in the services or products he or she is trying to sell. There may be tax consequences (capital gains) and transactional or surrender fees involved in retaining a new financial professional. The seminar promoter should be willing to candidly explain all costs, fees, penalties and tax consequences occasioned by the movement of your account to another firm.

Promises and Pressure

Beware of "too-good-to-be-true" promises. If they sound too good to be true, they are probably not legitimate. By the same token, be wary of high pressure sales tactics. If you feel like you are being pressured to make a decision about your investments, feel free to say no. If you are told to "buy immediately or the investment opportunity of a lifetime will be gone," you should be very suspicious. You didn't earn your nest egg overnight, so you shouldn't be expected to make hasty decisions about your retirement savings. Always ask questions before you invest, and make sure that you get straight answers.

Financial Maintenance

Finally, we recommend that you carefully monitor your finances when dealing with a broker or investment adviser. A good financial professional should be willing and able to explain why a product or service is (or isn't) suitable for your investment objectives. For example, you may be advised to sell conservative investment products like certificates of deposit, mutual funds or bonds to purchase high risk investments. High risk investments may not meet the investment objectives of a senior on a fixed income. Also, you should carefully review all documents and materials sent to you by your financial adviser, particularly any statements or transaction confirmation slips. If there is an error or you don't understand an entry, call your financial professional right away. By carefully monitoring your finances, you can ask the crucial questions to ensure that your investment plan is appropriate for your circumstances and needs.

While there's no such thing as a truly "free lunch," with this advice, you'll be all the wiser the next time you decide to attend one of these free seminars. Always investigate before you invest. Asking questions will maximize your understanding of whether new investment services and products are right for you.

If you think you have been the victim of financial misconduct or fraud, please call the Attorney General's Office Securities Unit at (302) 577-8424 (New Castle County) or (800) 220-5424 (Kent and Sussex Counties).

8. **Understand your financial needs.** Some older Americans have little ongoing need for investment funds, while others require monthly dividends to survive. Know what you want, out of your investment and if it truly meets your needs. Be careful not to make changes that might result in a disruption of your monthly income.
9. **Report all fraud or abuse.** Many older Americans fear that being a victim of fraud will reflect poorly on their ability to care for themselves. In reality, *anyone* can be defrauded. Report fraud immediately so it can be stopped. There are actual cases of family members defrauding the elderly. The only way to stop it is to report it.
10. **Don't be afraid to ask for help.** If you are unsure of an opportunity, ask a third party for advice. If you have questions about an investment adviser, a salesperson or a broker, call the Illinois Securities Department toll free at 800-628-7937.

For more information

Secretary of State
Illinois Securities Department
Jefferson Terrace Suite 200A
Springfield, Illinois 62713
217-782-2356

69 W. Washington
Suite 1220
Chicago, IL 60602
Tel: 312-723-3384

800-628-7937 (toll free)
888-231-1775 (Spanish hotline)


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**Senior
Citizens
and
Securities
Fraud**

JESSE WHITE
Secretary of State
Illinois Securities
Department



Share the responsibility. As Secretary of State, I will continue to work with the business community, labor unions and help protect the public from money compliance with our state's securities laws while searching for and preventing potential fraud and money laundering. I will continue to be a target of protection against fraud and information technology in the public's information and security. I will continue to be a target of protection against fraud and information technology in the public's information and security.

Protect Yourself From Fraud

Jesse White
 Jesse White
 Secretary of State

TEN TIPS TO AVOID INVESTMENT FRAUD

- 1. Don't let con artists in your home.** Everyone knows to lock the doors and windows at night. But few Americans realize that con artists don't come in the front door. They come in through the television, the radio, the computer and, most often, the telephone. If someone calls you offering a great deal, do the same thing you would to any unsolicited salesperson — hang up. Don't give them a chance to hook you on their offer.
- 2. Check out all deals.** Don't trust a stranger with your personal financial matters. If someone is pressuring you to invest immediately, "before it's too late," chances are they are trying to steal your money. Take time to learn more about the deal.
- 3. Stay in charge of your money.** Con artists will offer to "take care of everything," but it's a favor that can cost you all your hard-earned money. Stay in charge by educating yourself about securities and investing at the library or by calling the Illinois Securities Department.
- 4. Never judge a con artist by his/her appearance or professional demeanor.** Most con artists spend considerable time and money to look good so the victim doesn't question their credentials. slick, full-color brochures and elaborate Internet sites are nothing more than a spider's web luring investors.
- 5. Don't let a con artist prey on your fears.** Older Americans have many financial concerns. Will their savings last through their retirement years? Will a downturn in the economy leave them penniless? Con artists know all these fears — and a few you may not have thought of. Your greatest fear should be falling for their sales pitch.
- 6. Older women beware.** Older women are more likely to be the target of financial fraud and abuse than older men. Educate yourself. Don't take advice from strangers or even people you are familiar with unless you know exactly what you are getting into.
- 7. Get tough and keep watch.** Once you have invested money, don't just sit back and relax. Monitor your investments, and if you have questions, ask them.

The Pennsylvania Securities Commission
1010 N. 7th Street
Harrisburg, PA 17102-1410

Fraud Aimed at Older Americans

Older Americans are the No. 1 target of con artists. The files of the Pennsylvania Securities Commission and other state securities agencies are filled with tragic examples of seniors who have been cheated out of savings, windfall insurance payments and even equity in their homes.

DEFENSE TIPS:

To prevent more people from becoming victims, the North American Securities Administrators Association offers these defense tips:

1. Don't be a courtesy victim. Older Americans often extend hospitality to phone callers and visitors to their homes. Con artists will not hesitate to exploit the good manners of a potential victim.

You are under no obligation to stay on the phone with a stranger who wants your money. It is not impolite to explain that you are not interested and hang up. Save your good manners for friends and family members not swindlers.

2. Check out strangers. Too many older Americans make the mistake of trusting strangers when it comes to their finances. Say "no" to anybody who presses you to make an immediate decision, giving you no opportunity to check out the salesperson, the firm or the investment opportunity. Before you part with your hard-earned savings, get written information about the investment, review it and make sure that you understand all of the risks.

A favorite tactic of telemarketing con artists is to develop a false bond of friendship. Swindlers know that many seniors welcome phone calls, even those from strangers. If you are dealing with a stockbroker or financial planner in person, don't be swayed by offers of unrelated advice or assistance that are merely efforts to develop a sense of friendship and dependence. Don't seek companionship from someone whose only real interest is to get his hands on your money.

3. Always stay in charge of your money. Beware of any financial professional who suggests putting your money into something you don't understand, or who urges you to leave everything in his hands. Constant vigilance is a necessary part of being an investor.

If you understand little of the investment world, educate yourself or involve a family member or a professional, such as your banker or lawyer, before trusting a stranger who wants you to turn over your money.

4. Never judge a person's integrity by the sound of his voice. Successful con artists sound professional and can make the flimsiest investment deal appear as safe and sound as putting money in the bank.

Some swindlers combine their sales pitches with polite manners, knowing that many seniors equate good manners with integrity. Remember that the sound of a voice particularly on the phone has no bearing on the soundness of an investment opportunity.

5. Watch out for salespeople who prey on your fears. Con artists know that many seniors worry about outliving their savings or losing their financial resources to a catastrophic event, such as hospitalization. It is common for swindlers and abusive salespeople to pitch their schemes as ways to build up life savings to the point where fears aren't necessary.

Fear and greed can cloud your good judgment and leave you in a worse financial posture. An investment that is right for you will make sense because you understand it and feel comfortable with the level of risk involved.

6. Exercise particular caution if you are an older woman with no experience handling money. Many women who are in their retirement years received little or no education about handling money when they were young. They often relied on their husbands for major money decisions. As a result, older women particularly those who received insurance payments for the death of a husband are prime targets for con artists.
7. Monitor your investments and ask tough questions. Too many seniors compound the mistake of trusting unscrupulous salespeople by failing to keep an eye on the progress of an investment. Insist on regular written and oral reports. Look for signs of excessive or unauthorized trading of your funds. Don't be swayed by an assurance that such practices are routine or in your best interests.
8. Look out for any trouble retrieving principal or cashing out profits. Because unscrupulous promoters pocket the funds of their victims, they often go to great lengths to explain why an investor's savings are not readily accessible. In many cases, they pressure the investor to roll over non-existent profits into new and even more alluring investments, further delaying the point at which the fraud will be uncovered.

If you are not investing in a vehicle with a fixed term, such as a bond, then you should receive your funds or profits within a reasonable amount of time.

9. Don't let embarrassment or fear keep you from reporting investment fraud or abuse. Older Americans who fail to report that they have been victimized often hesitate out of embarrassment or fear that they will be judged incapable of handling their own affairs. Con artists know about such sensitivities and even count on these fears to prevent or delay the point at which authorities will be notified of a scam.

Most money lost to investment fraud isn't recovered beyond pennies on the dollar. However, if you recognize that you have been victimized and speak up promptly, you might recover some or all of your funds.

10. Beware of "reload" scams. Most older Americans deal with a finite amount of money that is unlikely to be replenished in the event of fraud or abuse. Faced with a loss of funds, some seniors will go along with another scheme a "reload" in which the con artist promises to make good on the original funds that were lost. Too often, the result is that unwary seniors lose whatever savings they have left in the wake of the original scam.

die, these investments are extremely speculative. There is no guarantee when a person will die, and, with the constant advancements in modern medicine, a terminally-ill person could live longer than anticipated. The longer the individual lives, the less the policy is worth to the investor. While the opportunity seems like an extremely sound investment, choosing to invest in viaticals can be a very risky decision, even when done legitimately.

5. *Ponzi Schemes*

Named for the scam artist Charles Ponzi, who swindled his investors out of millions of dollars in a matter of days, *Ponzi schemes* operate under the notion of "robbing Peter to pay Paul." A Ponzi scheme touts an investment opportunity with the promises of high returns and then, in order to make it appear legitimate, pays back its earlier investors with the money from later investors. Although the original scam – run by Ponzi himself – dates back to the 1920s, its tactics are still widely used today. Always in style, these swindles promise high returns to investors, but the only people who consistently make money are the promoters who set them in motion.

Schemes Aimed at Seniors



The Honorable Todd Rokita
Indiana Secretary of State

Indiana Secretary of State
Securities Division

James A. Joven
Securities Commissioner

Stephanie L. Beck
Investor Education Coordinator



To request additional copies of this or other materials, please contact

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Indiana Secretary of State
Todd Rokita

Fraud Aimed at Older Americans

www.sos.in.gov

Commission Types of Fraud Aimed at Older Americans

1. *Unregistered Securities*

Securities regulators, both at the national and state levels, exist to regulate the securities industry and bring to justice people who break the applicable laws. Unfortunately, entirely too many people do not realize the value of their securities regulators until *after* they have become a victim of fraud. Con artists often promise high returns on investments opportunities that they cannot truly guarantee. These swindlers prey on victims with high-pressure tactics – not giving the victims enough time to check on the investment first. Con artists also prey on victims who many not know that they can call securities regulators for assistance. It is important to remember that all investment opportunities must either be registered or exempt from registration. A quick call to Indiana Secretary of State Todd Rokita's office at 1-800-223-8791 can help investors take the appropriate steps to make sure the opportunity and the person selling it are legitimate.

2. *Promissory Notes*

While promissory notes *can* be a legitimate form of investment, often they are touted by con artists who convince unsuspecting investors to turn over their money. One of the largest problems with promissory note

fraud is that many people do not realize the high risk typically associated with promissory notes. Promissory notes often offer the potential for very high returns, but high returns always means higher risk. Most legitimate forms of promissory notes are actually sold to what are known as "sophisticated investors" – those who have the means to thoroughly research the opportunity and who can afford to invest (and potentially lose) a large sum of money. Corporate investors often fall into this category. The average senior citizen, on the other hand, does not. Promissory notes are a pressing issue, and more extensive information is available through the Secretary Rokita's office.

3. *Charitable Gift Annuities*

Plainly defined, an *annuity* is a contract for a payment of a specified amount of money payable over a period of time. In these simple terms, the concept of an annuity is not much different than a car loan or a mortgage payment. When considered in terms of investing, annuities are often linked to retired individuals. Annuities are an attractive investment generally offered through an insurance company. An individual will give the company a specific amount of money that is to be paid back to the investor over a period of time. In addition to the principal amount of money, the investor will be paid interest for allowing the company offering the annuity to use his/her money. An individual choosing to invest in annuities essentially gives a loan to a

company and then collects interest as the money is returned. These investments are generally attractive because they are usually touted with some form of protection, and they pay a fixed amount over the long term. For a retired person, this could be appealing because it promises a steady, "insured" income. It is important to realize, however, that no investment is truly "insured." An insurance company will claim some form of protection when investing in annuities; however, unforeseen circumstances could cause loss of money to the investors (e.g. the company goes out of business). There are several kinds of annuities, and these are addressed more specifically in annuity-focused literature. When discussing fraud aimed at seniors, the term *charitable gift annuity* is a familiar buzzword. A charitable gift annuity works much like a regular fixed annuity except the charity, rather than an insurance company, offers the annuity and benefits from the investment. While most annuities offered by charitable organizations are legitimate investments, investors should be cautious of little-known organizations or those that provide only minimal information.

4. *Vitality settlements*

Originating as a way to help the gravely ill pay their bills, these interests in the insurance death benefits of terminally ill patients are always risky and sometimes fraudulent. The insured gets a percentage of the death benefit in cash, and the investors get a share of the death benefit when the insured dies. Because of uncertainties in predicting when someone will

(continued on back)

**Missouri Secretary of State
Securities Division**
600 West Main Street
P.O. Box 1276
Jefferson City, MO 65102
Investor Protection Hotline
1-800-721-7996

A Senior's Guide to Avoiding Investment Fraud

Older Americans are the number one target of investment con artists. Additionally, stockholders and financial planners who engage in abusive practices often seek out the elderly. The files of the Missouri Securities Division and other state securities agencies are filled with tragic examples of senior citizens who have been cheated out of savings, insurance payments, and even the equity in their own homes. Fortunately, such victimization can be avoided by following ten self-defense tips developed for older Americans by the Securities Division of the Office of the Missouri Secretary of State and the North American Securities Administrators Association.

How Older Americans Can Avoid Investment Fraud and Abuse

1. **Don't be a "courtesy victim."** Older Americans are of the generation that was taught to be courteous at all times to phone callers, as well as to people who visit them at home. Con artists will not hesitate to exploit the good manners of a potential victim. Remember that a stranger who calls and asks for your money is to be regarded with the utmost caution. You are under absolutely no obligation to stay on the telephone with a stranger who wants your money. In these circumstances, it is not impolite to explain that you are not interested and hang up the phone. Save your good manners for friends and family members, not swindlers!
2. **Check out strangers touting "strange" deals.** Trusting strangers is a mistake that all too many older Americans make when it comes to their personal finances. Say "no" to any investment professional or con artists who presses you to make an immediate decision, giving you no opportunity to check out the salesperson, firm and the investment opportunity itself. Extensive background information on investment salespeople and firms is available from the Central Registration Depository (CRD) files available from the *Missouri Securities Division's Investor Protection Hotline 1-800-721-7996*. Almost all investment opportunities promoted to Missouri investors must be registered for sale with the Missouri Securities Division. The Securities Division can tell you if the investment opportunity is properly registered. Before you part with your hard-earned savings,

get written information about the investment opportunity, review it carefully, and make sure that you understand all the risks involved.

A favorite tactic of telemarketing con artists is to develop a false bond of friendship with older Americans. Swindlers know that many senior citizens welcome phone calls, even those from complete strangers. If you are dealing in person with a stockbroker or financial planner, do not be swayed by offers of unrelated advice and assistance that are merely efforts to develop a sense of friendship and dependence. Don't make the mistake of seeking companionship from someone whose only real interest is to get his or her hands on your money.


3. **Always stay in charge of your money.** A stockbroker, financial planner or telemarketing con artist who wants your money will be more than happy to assure you that he or she can handle everything, thereby relieving you of the need to watch over and protect your nest egg. Beware of any financial professional who suggests putting your money into something you don't understand or who urges that you leave everything in his or her hands. Constant vigilance is a necessary part of being an investor. If you understand little about the world of investments, take the time to educate yourself or involve a family member or a professional, such as your banker, before trusting a stranger who wants you to turn over your money and then sit back and wait for results.
4. **Never judge a person's integrity by how they sound.** All too many older Americans who get wiped out by con artists later explain that the swindler sounded like such a nice man or woman. Successful con artists sound extremely professional and have the ability to make even the flimsiest investment deal sound as safe and sound as putting money in the bank. Some swindlers combine professional-sounding sales pitches with extremely polite manners, knowing that many older Americans are likely to equate good manner with personal integrity. Remember the sound of a voice, particularly on the phone, has no bearing on the soundness of an investment opportunity.
5. **Watch out for salespeople who prey on your fears.** Con artists know that many older Americans worry they will either outlive their savings or see all of their financial resources vanish overnight as the result of a catastrophic event, such as a costly hospitalization. As a result, it is common for swindlers and abusive salespeople to pitch the schemes as a way for older Americans to build up their life savings to the point where such fears are no longer necessary. Remember that fear and greed can cloud your good judgment and leave you in a much worse financial posture. An investment that is right for you will make sense because you understand it and feel comfortable with the degree of risk involved.
6. **Exercise particular caution if you are an older woman with no experience handling money.** Ask a con artist to describe his ideal victim and you are likely to hear the following two words: "elderly widow." Sadly, many women who are now in their retirement years often received little or no education in their youth about how to handle money. Women of this generation often relied on their

husbands to handle most of all major money decisions. As a result, older women, particularly those who have received insurance payments in the wake of their spouse's death, are prime targets for con artists. Elderly women who are on their own and have little know-how about handling money should always seek the advice of family members or a disinterested professional before deciding what to do with their savings. One excellent resource available nationwide is the Women's Financial Information Program at the American Association of Retired Persons (AARP). For more information, write: "Women's Financial Information Program," AARP Consumer Affairs, 601 E Street, NW, Washington, DC 20049.

7. **Monitor your investments and ask tough questions.** Too many older Americans not only trust unscrupulous investment professionals and outright con artists to make initial financial decisions for them, but compound their error by failing to keep an eye on the progress of the investment. Insist on regular written and oral reports. Look for signs of excessive or unauthorized trading of your funds. Do not be swayed by assurances that such practices are routine or in your best interests. Do not permit a false sense of friendship or trust keep you from demanding a routine statement of your savings. When you suspect that something is amiss and get unsatisfactory explanations, call your state securities agency and make a complaint.
8. **Look for trouble retrieving your principal or cashing out profits.** Many older Americans have little ongoing need for investment funds, while others require returns that are paid out regularly in order to supplement limited incomes. If a stockbroker, financial planner or other individual with whom you have invested stalls you when you want to pull out your principal or profits, you may have uncovered someone who wants to cheat you. Since unscrupulous investment promoters pocket the funds of their victims and go to great lengths to explain why an investor's savings are not readily accessible. In many cases, they will pressure the investor to "roll over" non-existent "profits" into new and even more alluring investments, thus further delaying the point at which the fraud will be uncovered. If you are not investing in a vehicle with a fixed term, such as a bond, you should be able to receive your funds or profits within a reasonable amount of time.
9. **Don't let embarrassment or fear keep you from reporting investment fraud or abuse.** Older Americans who fail to report that they have been victimized in financial schemes often hesitate out of embarrassment or the fear that they will be judged incapable of handling their own affairs. Some senior citizens have indicated that they fear that their victimization will be viewed as grounds for forced institutionalization in a nursing home or other facility. Recognize that con artists know about such sensitivities and, in fact, count on these fears preventing or delaying the point at which authorities are notified of a scam. While it is true that most money lost to investment fraud is rarely recovered beyond pennies on the dollar, there are also many cases in which older Americans who recognize early on that they have been misled about an investment are then able to recover some or all of their funds by being a "squeaky wheel." If you feel you have been defrauded, contact the Securities Division immediately.

10. **Beware of "reload" scams.** Younger Americans who are ripped off by swindlers are fortunate to the extent that they have the opportunity to pick themselves up and restore some or all of their losses through new earnings. Most older Americans, however, are dealing with a finite amount of money that is unlikely to be replenished in the event of fraud and abuse. The result is a panic that is well known to con artists, who have developed schemes to take a "second bite" out of senior citizens who already have been victimized. Faced with a loss of funds, some senior citizens will go along with another scheme (allowing themselves to, in effect, be reloaded) in which the con artists promise to make good on the original funds that were lost... and possibly even generate new returns beyond those originally promised. Though the desire here to make up lost financial ground is understandable, all too often the result is that unwary senior citizens lose whatever savings they have left in the wake of the initial scam and possibly more in the second scam.

Remember, when in doubt, make no promises or commitments, no matter how tentative. It is far better to wait and lose an opportunity than to take the plunge and lose everything. When hounded on the phone by an aggressive promoter, do not be afraid to hang up without explanation. You don't owe the caller anything, no matter how nice the caller may seem. In fact, this kind of solicitation is an invasion of your privacy, and may be a violation of federal and state law.



QUESTIONS WORKSHEET

FOR UNSOLICITED PHONE CALLS ABOUT INVESTMENTS

Knowledge is power. The following checklist is designed as a quick reference to help investors ask the right questions before making an investment. Once your questions have been answered, contact your state securities regulator, or other appropriate state agency, to verify the information.

REMEMBER: The time to ask questions is **before you invest** your hard-earned money.

SELLER/AGENT INFORMATION

Today's Date: _____

Seller/Agent Name: _____

Company/Business Name: _____

Company/Business Address: _____

What are you offering?: _____

1. How did you get my name? _____

2. Is this investment guaranteed? ☐ yes ☐ no

3. What license(s) do you hold that authorizes you to sell this product or service?

LICENSE TYPE	LICENSE INFORMATION
Insurance License	License No: _____
Securities License	CRD No: _____
Accountant License	CPA No: _____
Real Estate License	DRE License No: _____
Other: Explain _____	

4. Is this investment registered? ☐ Montana State Auditor's Office
☐ Securities & Exchange Commission ☐ Other _____

5. Please send me copies of the company's financial statements. ☐ yes ☐ no
and a list of customers I can call. _____

6. What are the commissions and fees?
commissions _____
fees _____


7. Send me a prospectus or offering material. ☐ yes ☐ no

8. Your telephone number so I can call you. _____



9. Will you call my stockbroker/lawyer/banker with the same offer so I can ask
for a second opinion? ☐ yes ☐ no

10. How is my principal being used and will I have access to it?

access ☐ yes ☐ no



MONTANA

 investSmartmt.org
 **1-800-603-6035**

Senator KOHL. Thank you very much, Ms. Struck.
Ms. Walter.

STATEMENT OF ELISSE B. WALTER, EXECUTIVE VICE PRESIDENT, REGULATORY POLICY AND OVERSIGHT, NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD), WASHINGTON, DC

Ms. WALTER. Thank you, Senator Kohl.

Good morning. I am Elisse Walter, executive vice president of NASD.

On behalf of NASD, I would like to thank you and the Committee for holding this hearing and for inviting us to testify today about our work to protect investors, particularly the elderly. This is a terribly important subject, and the Committee is to be commended for addressing it.

We have prepared a more detailed and comprehensive written statement and, with your permission, will submit it for inclusion in the record.

NASD was founded more than 60 years ago as part of the Government's response to the market crash of 1929 and the Great Depression. The Federal Government designated NASD as the private sector regulator for the securities industry with the mission of protecting investors.

Under Federal law, every securities firm doing business with the public must register with NASD. Our mission includes writing rules that govern securities firms and their employees, enforcing those rules, and sanctioning those who fail to comply. On average, we bring more than 1,000 new disciplinary actions every year, with sanctions ranging from censures to fines and suspensions to expulsion from the industry.

Every year, we bring cases against those who have specifically targeted the elderly. When we encounter fraud that is outside our jurisdiction—for example, in cases involving investment advisors—we refer cases to criminal authorities, the States, and the SEC.

Senator Kohl, as you said in your opening statement, the first step is education. So, in addition to enforcement, my testimony today focuses on what we at NASD are doing to educate investors so they can avoid problems before they occur.

In addition to our investor alerts, which alert the public to current schemes, we also reach out to seniors through our investment forum programs attended by more than 7,500 investors, including many older citizens. Last year, we opened a new office in Boca Raton, FL, due to the growth of problematic activity in that area targeted at retirees.

Our Investor Education Foundation has awarded grants directed to senior concerns. For example, a grant to WISE Senior Services, which is working in collaboration with the AARP, to discern the reasons why the elderly are more frequently victimized by investment fraud. Among other things, they are exploring the theories of con artists for what makes an easy target.

This fall, we are starting a multi-million dollar advertising campaign to direct the public to the investor education resources that we offer. For example, we think, as you have heard today already, that everyone should know how important it is to do their home-

work before they invest and before they give their money to a broker.

NASD's BrokerCheck Program gives investors easy access to background information about firms and individual stock brokers. We encourage investors to use it to learn about the conduct of those with whom they invest. Investors can access these reports through our Web site, www.nasd.com, or a toll-free telephone number, 800-289-9999.

We also encourage seniors and those who care for them to use the NASD Web site, where we provide a wide range of tools and resources, including the alerts I mentioned and other publications directed to individual retail investors.

Awareness, prevention, and education are major deterrents to investment fraud. Unless seniors are armed with the education necessary to identify and thus avoid attempts at financial exploitation, they can more easily fall prey to fraud.

So what recourse do seniors have if they have been misled or otherwise treated unfairly? Investors can lodge complaints with NASD. Investigating these complaints is a big part of our job. You can submit a complaint through our Web site or by contacting one of our district office staff by phone or in writing.

We review every customer complaint, and investors can seek to recover their losses through filing a case in our arbitration forum. NASD is the largest dispute resolution forum in the securities industry. It handles 90 percent of the securities arbitrations and mediations in the country.

Also, in our routine examinations of broker/dealer firms, NASD focuses on sales practice issues, including compliance with our requirement that a recommendation of a securities transaction be appropriate for the investor to whom it is made. This is especially important when it comes to seniors, who have a more limited time horizon for their investments and who may need access to their money for long-term care costs.

NASD also conducts sweeps, a series of targeted examinations which may involve particular products, often those that are disproportionately sold to the elderly. For example, we recently began a sweep focusing on the suitability of recommendations to exchange, withdraw funds, or take other distributions from variable insurance products in order to fund investments in equity indexed annuities and the associated supervision of this activity.

Another area where we have focused our attention and resources is sales seminars, which are often attended by retirees and the elderly. These seminars—with titles like "Asset Protection For Seniors," "Common Sense Retirement Strategies," "Six Mistakes Retirees Make With Their Finances," and "Striking It Rich In Retirement"—sometimes entail high-pressure sales tactics under the guise of a free lunch or dinner.

We have brought a number of enforcement actions relating to seminars, and we are joining with the SEC and Florida securities regulators to review these seminars.

The entire financial industry depends on investor confidence. NASD exists to bring integrity to the markets and to protect investors. As we have all been reminded this morning, lasting confidence must be based on good information and sound regulation.

Thank you so much for this opportunity to testify, and I would be happy to answer any questions you have.
[The prepared statement of Ms. Walter follows:]



Testimony
of
Elisse B. Walter

Executive Vice President
Regulatory Policy and Oversight
NASD

Before the

Committee on Aging
United States Senate

Hearing on Elderly Investment Fraud

March 29, 2006

Introduction

Mr. Chairman and Members of the Committee: NASD is grateful to the Committee for inviting us to testify about NASD's work to protect senior investors and for allowing us to submit this statement for the record.

NASD is committed to protecting investors of all ages through a wide range of programs. Our work in two areas is especially relevant to today's hearing topic: our investor education programs aimed at older investors and the work of our regulatory staff in combating fraud targeted at seniors.

Most recently, we have joined with the staff of the Securities and Exchange Commission (SEC) and the Florida Office of Financial Regulation in a new initiative focused on sales seminars. In this new initiative, we will conduct examinations of firms to determine whether they are complying with applicable rules in conducting sales seminars and adequately supervising this activity, including the sales literature used. In addition, this initiative will have an investor education component to make seniors more aware that they may be targets of problematic sales seminars and that investment opportunities may be recommended to them that are highly risky or inappropriate for them, in light of their age, net worth, overall investment experience, income and investment objectives.

Our testimony today will focus on both NASD's investor education and its examination and enforcement roles.

NASD

Founded in 1936, NASD is the world's pre-eminent private-sector securities regulator. In 1939, the SEC approved NASD's registration as a national securities association under authority granted by the 1938 Maloney Act Amendments to the Securities Exchange Act of 1934. We regulate every broker-dealer in the United States that conducts a securities business with the public—about 5,200 securities firms that operate more than 108,000 branch offices and employ about 664,000 registered representatives.

NASD rules regulate every aspect of the brokerage business. Our market integrity and investor protection responsibilities include rule writing, compliance examinations, enforcement, professional training, licensing and registration, dispute resolution and investor education. NASD examines broker-dealers for compliance with NASD rules, Municipal Securities Rulemaking Board (MSRB) rules and the federal securities laws, and we discipline those who fail to comply. Last year, NASD filed 1,399 new enforcement actions and barred or suspended 740 individuals from the securities industry. NASD has a nationwide staff of more than 2,400 with an operating budget of more than \$530 million and is overseen by a Board of Governors, more than half of whom are not in the securities industry.

NASD Investor Education

Awareness, prevention and education are major deterrents to investment fraud. Unless seniors are armed with educational tools necessary to actually identify and thus avoid attempts at financial exploitation, they can more easily fall prey to fraud. NASD educates seniors and other investors about how to invest wisely and avoid investment fraud through its own investor education program and through the NASD Investor Education Foundation.

With results of a 2003 survey showing that an overwhelming 97 percent of investors realize they need to be better informed about investing, NASD has responded with an expanded array of resources. These include maintaining a prominent investor portion of our Web site, www.nasd.com, which features investor alerts and other publications directed to individual, retail investors. NASD also reaches investors directly through investor forums and other events around the country.

Investor Alerts and Other Publications

NASD has issued a number of investor alerts that warn people about potential problem products or practices. A number of these alerts focus on products that often are targeted for sale to seniors. These include alerts on:

- Equity-Indexed Annuities
- Variable Annuities
- "Stretch" IRAs

In one of our alerts on variable annuities, we focused on the marketing efforts used by some variable annuity sellers to target seniors. For example, as we noted in our alert, one scare tactic that has been used with seniors is the claim that a variable annuity will protect them from lawsuits or seizures of their assets. Claims like this one are not based on facts, but nevertheless help convince older citizens to buy the recommended product.

Other NASD educational publications contain materials of particular interest to investors who have retired or are contemplating retirement. For example, our 401(k) Learning Center contains valuable information about withdrawals from that critical retirement-funding vehicle. Many seniors may find our Bond Learning Center very helpful since they may typically invest a greater percentage of their assets in fixed income investments, such as corporate or government bonds. The Bond Center covers all types of bonds, from savings bonds, to municipals, to treasuries and agency bonds, as well as information about bond funds, including a risk report card for each bond category.

NASD BrokerCheck

A critical first step when doing business with an investment professional is knowing who you are doing business with. NASD's BrokerCheck Program gives investors convenient access to information about brokerage firms and individual brokers, which, like other NASD tools for retail investors, is available free of charge. We encourage investors to use this valuable resource to learn about the disciplinary history, professional background, business practices, and conduct of brokerage firms and brokers with whom they invest. Through the Web at www.nasdbrokercheck.com or a toll free hotline (1-800-289-9999), investors may obtain employment and registration information and request a disclosure report. NASD obtains this information from the broker, NASD member firms, the SEC and state regulators as part of the securities industry's registration and licensing process.

Not only is BrokerCheck an essential first step in selecting a broker or firm, but it also is a resource that individuals should use periodically to keep tabs on their broker or firm. BrokerCheck tells you the states in which a broker is registered to do business. It tells you their employment history and whether they have had any disciplinary problems, such as certain types of criminal actions, enforcement actions by NASD and other regulators, customer complaints and certain investor-initiated arbitrations.

We urge investors to make use of BrokerCheck to learn about their investment professionals BEFORE they invest. Investors can also contact their state securities department to obtain information about brokers and to lodge complaints. Each state has a separate securities department that regulates the securities industry within its boundaries.

Professional Designation Database

The North American Securities Administrators Association recently urged seniors to carefully check the credentials of individuals holding themselves out as "senior specialists," noting that individuals use these designations to create a false sense of comfort among seniors. NASD's Professional Designation Database, http://apps.nasd.com/investor_information/resources/designations/, is the only tool available to investors that helps them to sort through the list of professional designations and to better understand what education and experience requirements are necessary for a designation. This tool allows investors to see whether the granting organization mandates continuing education, offers a public disciplinary process, provides a means to check a professional's status, and otherwise ensures that a professional designation is more than just a string of letters.

NASD Investor Education Foundation

The NASD Investor Education Foundation (NASD Foundation or Foundation) is a natural outgrowth of NASD's long-standing mission to protect investors and uphold the integrity of the markets. Investors need a better sense of what they are doing and why.

Through the Foundation, we meet this need by funding innovative research and educational projects aimed at segments of the investing public who could benefit from additional resources.

NASD established the NASD Foundation in December 2003 in response to both the current environment in the markets and a survey conducted by NASD that showed that investors still have a number of fundamental questions and misunderstandings about important investment issues. The Foundation awards grants to fund educational programs and research aimed at segments of the investing public who could benefit from additional resources.

One of the NASD Foundation's grant making priorities has been to better prepare older Americans for handling their finances during retirement. In its first two years of grant making, the Foundation has funded two grants that focus particularly on older Americans. One of those grants is funding development of an interactive game-based educational program to provide investor education with an emphasis on retirement planning, primarily for 45 to 60 year old women. Funding provided by another grant is being used to conduct a series of focus groups and surveys with victims of investment fraud and non-victims to learn more about why the elderly are more frequently victimized by investment fraud. The grantee will use these findings to determine if a fraud vulnerability profile exists for seniors and, if it does, develop practical marketing messages to increase investment fraud awareness among seniors. The project is to be completed in collaboration with AARP. We anticipate that the project will be completed in May 2006.

Investor Complaints and Dispute Resolution

NASD's goal is not only to be a source of critical information for individual investors so that they can make better-informed decisions, but also to take direct action to protect them. Despite our best efforts to protect investors, however, problems do occur. What recourse do investors have if they feel that they've been treated unfairly or misled?

In addition to contacting the securities firm's compliance department to discuss a broker's unfair or improper conduct, an investor may also lodge a complaint directly with NASD. Investigating complaints from investors is a significant function of NASD, and we look into all complaints that we receive. Alert investors have helped NASD successfully discipline many firms and brokers that have violated NASD rules or the federal securities laws. To report a problem, investors may submit complaints online via our Web site or send a letter to the NASD Complaint Center.

Although the vast majority of investors will never need to resolve an investment-related problem, all investors should know that NASD operates a dispute resolution forum, which handles 90% of securities arbitrations and mediations in the country. To get more information, or the forms needed to begin such a process, investors may visit our Web site or contact one of the NASD Dispute Resolution offices. By clicking on the

Arbitration and Mediation tab at the NASD Web site, investors can access a list of the Dispute Resolution regional offices and hearing sites.

NASD Regulatory Work to Protect Seniors

As noted above, NASD protects investors by adopting appropriate rules to govern the conduct of the securities industry; examining securities firms to determine whether they are complying with those rules, both on a periodic basis and in response to customer complaints and other red flags; and disciplining firms and brokers who fail to comply--imposing sanctions ranging from censures to fines, suspensions and expulsion from the industry. In our routine examinations of broker-dealer firms, NASD focuses on sales practice issues, including suitability, the requirement that a recommendation of a securities transaction be appropriate for the particular investor to whom it is made. Misconduct by firms with respect to the accounts of older investors is identified in several different ways, including our sales practice reviews, customer grievance reviews and advertising/sales literature reviews.

Mr. Chairman, NASD is particularly concerned about possible sales practice abuses in the distribution equity indexed annuities. Equity indexed annuities guarantee the purchasers a minimum fixed rate of return, but also provide an added opportunity based upon the performance of a stock market index. The status of these products is unclear under federal law. Some equity indexed annuities may qualify as securities, in which case they can be sold only by a broker-dealer subject to NASD oversight. However, most sales of equity indexed annuities are treated as insurance sales and are not made by brokers subject to NASD oversight. NASD issued a notice to broker-dealers, urging them to consider adopting more complete supervisory procedures with respect to these products regardless of how they are treated. Moreover, NASD and the Minnesota Department of Commerce have scheduled a roundtable this spring to bring together insurance and securities regulators, industry representatives, and consumer advocates, to discuss whether all of us can do more to protect investors in equity indexed annuities and other annuity products. We hope that the roundtable will represent a significant step toward more effective supervision and sales practice compliance with respect to insurance products.

In addition to these policy initiatives, NASD often conducts sweeps, a series of targeted examinations, involving particular products and the specified products frequently are investments that are sold to the elderly. For example, we recently commenced a sweep focusing on the suitability of recommendations to exchange, withdraw funds or take other distributions from variable insurance products in order to fund investments in equity indexed annuities and the associated supervision of this activity.

Another area on which we have focused our attention and resources is sales seminars, which are often attended by retirees and the elderly. These seminars, with titles like "Asset Protection for Seniors," "Common Sense Retirement Strategies," "Six Mistakes Retirees Make with Their Finances" and "Striking it Rich in Retirement" are of concern because they may combine high-pressure sales tactics under the guise of a free lunch or

dinner. These seminars have been run by the broker-dealers we regulate, as well as other entities we do not regulate, including investment advisers.

Most of the seminars, although not explicitly targeted at seniors, cover topics that would be of interest primarily to seniors and retirees, including asset protection, estate planning and taxes. Other topics covered at seminars include "Tax free IRA/401 K Withdrawals" and "CD Alternatives," as well as real estate investments. The advertisements for such seminars sometimes mention a specific product, most commonly annuities (variable and equity indexed), followed by insurance, REITs (real estate investment trusts) and mutual funds. As noted earlier, NASD is joining with the SEC and Florida securities regulators to review these seminars.

Advertising Regulation

Broker-dealers use a variety of communications in presenting seminars. For example, they may advertise in local newspapers or magazines, or on the radio, and they may use direct mailings or mass emails. A variety of communications are used in presenting a seminar, including outlines, scripts, PowerPoint slides and notes, handouts, workbooks, worksheets and brochures. NASD reviews these communications on a routine basis and in the course of special investigations and sweeps.

Like any other public communication by a broker-dealer, seminar presentations must adhere to the content standards of NASD Rule 2210. The rule generally prohibits false, misleading or exaggerated statements or claims. The rule requires broker-dealer communications to be balanced and to provide a sound basis for evaluating the facts with respect to the product or service offered. These standards apply to scripted and extemporaneous presentations as well as any collateral material provided (for example, handouts, slides or worksheets).

In addition to the content standards of Rule 2210, sales materials of any kind used by a broker-dealer in connection with a seminar (including advertisements, invitations, scripts and outlines) must be approved prior to use and in writing by a registered principal of that securities firm. This material may also be subject to filing with NASD depending upon its content. Firms must file any sales materials pertaining to mutual funds, variable annuities, variable life insurance, unit investment trusts and public direct participation programs. They must also file certain seminar materials related to government securities, collateralized mortgage obligations and options.

Enforcement Cases

NASD has commenced enforcement actions involving a wide range of abuses perpetrated on senior citizens. The abuses typically include making unsuitable recommendations of variable annuity purchases; inappropriately switching elderly customers from one variable annuity product to another; recommending speculative securities and use of margin; facilitating the use of home equity to obtain investment funds; excessive trading and churning; misrepresentations and omissions; forgery;

unauthorized transactions in customer accounts; fraud such as Ponzi schemes; customer harassment; and abuse of the arbitration process.

The sanctions and relief obtained in NASD settlements and decisions have been wide ranging, including suspensions, restitution for customers, disgorgement of ill-gotten gains and expulsion of firms and individuals from the securities industry. NASD has also pursued actions against individuals who have failed to pay arbitration awards obtained by seniors. Such actions have either resulted in payments to the individual customers/claimants or suspensions from the industry for those who fail to honor their claims. A few examples follow.

Harassment/Arbitration Abuse

In one recent case, NASD censured and fined Sigma Financial Corporation and its President, Jerome Rydell, \$135,000 for making frivolous filings in Michigan state court to harass and intimidate elderly customers (a husband and wife) who had obtained an arbitration award against Sigma. Rydell also was subjected to a 10-business-day suspension in all principal capacities and Sigma agreed to reimburse the elderly couple the \$110,000 in attorney's fees and costs they incurred over three years defending themselves against the firm in the Michigan court litigation.

Unsuitable Recommendations

In a case involving unsuitable sales of variable annuities and mutual funds, a registered representative, John S. Blount, was barred from association with any NASD-regulated firm and ordered to pay more than \$1.5 million in restitution plus interest to 10 customers. In one instance, where the customer was a 62-year-old retiree who wanted to keep his principal safe and anticipated the need for funds within a few months, Blount convinced the customer to invest almost all of his liquid assets in a variable annuity contract with high-risk sub-accounts and a six-year period during which substantial penalties would be imposed if the customer surrendered the contract. Later, the customer was forced to borrow against his home to purchase a car and make home repairs.

Fraud/Ponzi Schemes

In July 2001, Patrick Anthony, through his broker-dealer firm Camden Securities, solicited \$80,000 from two elderly investors (ages 79 and 64), purportedly to invest in a new start-up company. The deal was a fraud; Anthony diverted much of the money to his failing firm, himself and to family members. NASD charged Anthony with violations of NASD Rule 2120 and SEC Rule 10b-5. In the settlement, NASD suspended Anthony from the industry for two years, barred him from serving in a principal capacity with any NASD-regulated firm, fined him \$10,000 and ordered him to pay restitution totaling \$77,400 plus interest to the two customers.

Another fraudulent scheme involved a registered representative named Francisco Galvan, who recommended that a 59-year-old retired nurse purchase stock of Internet

Ventures, Inc. (IVI) and Rockwindow Television Network, Inc. (Rockwindow) for \$25,000 and notes issued by IVI and The Diligent Group for \$305,000. Not only did the retired nurse invest all of her liquid assets, but at Galvan's suggestion, she used her credit cards to finance \$26,250 of the \$30,000 she invested with The Diligent Group. Although she received a 60-day promissory note from the Diligent Group reflecting that she would be paid \$45,000 plus the cost of obtaining the funds from her credit cards, she received nothing. Apparently, she had intended to use the interest earned to surprise her husband by paying off the motor home that they owned. Mr. Galvan was barred from the securities industry as a result.

Misleading Advertising

A case based on misleading advertising involved a registered representative named Dennis L. Marlowe, who was barred for use of misleading advertisements, including seminar advertisements. Another case involved a representative named Cynthia M. Couyoumjian who received a 31-day suspension and a \$20,000 fine for seminar ads and a seminar workbook that, among other problems, promoted equity indexed annuities using misleading and unbalanced statements and claims.

In addition to these formal actions, NASD has issued numerous Letters of Caution to firms for use of problematic seminar materials. In addition, NASD has referred five matters to Florida and California state regulators relating to retiree seminars where NASD had no jurisdiction.

Conclusion

Thank you for giving us the opportunity to testify on these important topics and for your important work on this issue. America's elderly deserve honesty and integrity from those who sell them financial products. NASD will continue its work to protect all investors, including seniors. Mr. Chairman, we encourage every investor, and especially seniors and those who care for them, to look to NASD and for answers, information and help so that they can make informed investment decisions.

Senator KOHL. Thank you very much, Ms. Walter.
Now we will hear from Ms. Wyderko.

**STATEMENT OF SUSAN FERRIS WYDERKO, ACTING DIRECTOR,
DIVISION OF INVESTMENT MANAGEMENT, U.S. SECURITIES
AND EXCHANGE COMMISSION (SEC), WASHINGTON, DC**

Ms. WYDERKO. Senator Kohl, on behalf of the Securities and Exchange Commission, thank you for the opportunity to testify today about our efforts to protect and educate investors, including our Nation's senior citizens.

I am the director of the SEC's Office of Investor Education and Assistance. My office is the front door of the commission for individual investors. Nearly every day, my staff fields telephone calls and receives letters and e-mails from seniors or from the children and caregivers of seniors.

The subject of your hearing, financial fraud on the elderly, is one that our chairman, our commissioners, and I care about deeply. Some of the cases that we see are heart-breaking. They involve seniors bilked out of all of their savings at a time of their lives when they need it most and can't recover.

In our experience, the two most common challenges senior investors face involve avoiding outright scams and learning how to fend off high-pressure sales pitches for legitimate, but arguably unsuitable products. These include the "free lunch" seminars that encourage seniors to purchase variable annuities and other complex manufactured products with contract riders promising guaranteed death benefits.

So let me tell you what the SEC is doing to protect seniors in the enforcement area, in our inspections, and from a consumer education perspective. Over the last 2 years alone, our Division of Enforcement has brought at least 26 enforcement actions aimed specifically at protecting elderly investors. Many of these actions were coordinated with State authorities.

One recent case involved a \$144 million Ponzi scheme that lured elderly victims in southern California to workshops with the promise of free food. The fraudsters then bilked them out of their retirement money by purporting to sell them safe, guaranteed notes.

While it is important to catch wrongdoers and bring them to justice, it is always better to prevent wrongdoing. So that is why our examination staff, together with the NASD and the State of Florida, will soon be conducting a series of examinations of broker/dealers and advisors that lure seniors to attend sales seminars, many times at fancy hotels and restaurants with the promise of a free lunch.

Our examiners will be looking at the firms that sponsor these seminars to see whether the sales seminars are supervised, whether the sales people are making wild claims of possible returns on an investment, and whether the risks that are inherent in any investment are being appropriately disclosed.

Now while enforcement and inspection activities are important to stopping fraud and misleading sales practices, our best defense against fraud is an educated investor. The dominant theme of the SEC's investor education materials is, "Investigate before you in-

vest.” We encourage individuals to ask questions and fully understand any investment before purchasing.

We publish clear and concise explanations of some of the most complex products that are sold to a senior, such as variable annuities and equity indexed annuities. We also counsel investors to check out the background and credentials of any securities salesperson or financial professional.

We stress that if a deal sounds too good to be true, it usually is. We don’t copyright any of our materials. We make them freely available in both Spanish and English.

Now we know that many seniors and many children and caregivers of seniors are using the Internet to search for information on investing. That is why we recently created a page on our Web site specifically aimed at senior citizens. This page provides links to critical information on investments commonly marketed to seniors. It also warns against the dangers of listening to the sales pitches of cold callers.

Senior citizens who want to know more can ask for a copy of our senior care package, which is a collection of our most popular brochures for seniors.

In closing, I would like to thank this Committee for recognizing the importance of the commission’s efforts in helping our Nation’s seniors to rest more easily with their investment decisions. I appreciate your inviting me to speak on behalf of the commission, and I would be happy to answer any questions you may have.

[The prepared statement of Ms. Wyderko follows:]

**TESTIMONY OF
SUSAN FERRIS WYDERKO
DIRECTOR, OFFICE OF INVESTOR EDUCATION AND
ASSISTANCE
ACTING DIRECTOR, DIVISION OF INVESTMENT
MANAGEMENT
U.S. SECURITIES AND EXCHANGE COMMISSION

CONCERNING ELDERLY INVESTMENT FRAUD

BEFORE THE SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE**

March 29, 2006

Chairman Smith, Ranking Member Kohl, and Members of the Committee:

I. Introduction

On behalf of the Securities and Exchange Commission, thank you for the opportunity to testify today about our efforts to protect and educate investors, including our nation's senior citizens.

One of the most important things I want to communicate to you today is that the subject of your hearing – financial fraud on the elderly – is one that our Chairman, our Commissioners, and I personally all care about deeply. We not only care about it, but we are rolling up our sleeves and doing our absolute best to protect its victims. Some of the cases we see—involving seniors bilked out of all their savings at the time of their lives when they need them most and can not recover—are heartbreaking. Financial fraud erodes the trust on which our entire financial system is premised. Scam artists end up hurting far more people than they targeted. As Chairman Cox noted just last week, this issue is daily becoming more pressing for us because the Baby Boom generation will soon start retiring. No fewer than 75 million Americans are due to turn 60 over the next 20 years, more than 10,000 every day. And these people will have a lot of assets. As Willie Sutton is famous for saying that he robbed banks “because that’s where the money is,” our older population has been and will continue to be a tempting target for securities fraudsters.

So let me tell you what the SEC is doing about this – in the enforcement arena, in our oversight operations, in our inspections, and from a consumer education perspective – keeping in mind that our efforts on behalf of the elderly will only grow in the months and years ahead.

The SEC's mission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. We actively seek to detect problems in the securities markets, prevent and deter violations of the federal securities laws, and alert investors to possible wrongdoing. When violations occur, the SEC aims to take prompt action to halt the misconduct, sanction wrongdoers effectively, and, where possible, return funds to harmed investors.

While our programs aim to foster fair markets for all investors, we have seen that some securities industry professionals target identifiable groups, such as seniors, for inappropriate products or opportunities, and that fraud artists frequently prey on the elderly. We're taking a three-pronged approach to combat fraud in all its manifestations, including elderly investment fraud: enforcement, examinations, and education.

I am the Director of the SEC's Office of Investor Education and Assistance. My Office is the "front door" to the Commission for individual investors. Every year, my staff handles tens of thousands of complaints and questions from investors who contact the SEC. And nearly every day, my staff fields telephone calls and receives letters and emails from seniors or from the children and care-givers of seniors.

These calls and letters tell sad stories of seniors who succumbed to sales pitches for products that simply were not appropriate or who did not understand key features of an investment. Here are a couple of cases that illustrate the kinds of problems involving the elderly that we see every day. We heard from the grandson of a gentleman — now deceased — who had struggled for more than 6 years to reverse the purchase of a variable annuity. The agent who sold the product had emphasized features, including a roll-up provision, that the investor was not even eligible for because of his age at the time he signed the contract. Only after the investor's death was the matter resolved. While most complaints we receive are not quite so egregious, they never seem to stop. We recently helped an elderly, disabled gentleman in Florida who had been trying unsuccessfully for nearly six months to close out his deceased mother's brokerage account. Time and again, we see seniors who encounter serious difficulties in effecting what should be routine securities transactions or otherwise dealing with financial professionals. A major portion of my office's efforts is directed at helping those seniors.

My office captures key information about the complaints and questions we receive in an extensive database. While we typically do not know the ages of those who contact us, we do record the products, people, firms, and types of behavior involved. We use that information to inform other divisions at the SEC, so that the agency can better deploy its investigative and enforcement resources, and better identify the next problem down the road.

II. Investments and Scams Targeted at the Elderly

In our experience, one of the two most common challenges senior investors face involves how to fend off high pressure sales pitches for legitimate, but arguably unsuitable products. These include "free lunch" seminars that encourage seniors to purchase variable annuities and other complex, manufactured products with contract

riders promising guaranteed death benefits. We have also heard anecdotes from conservative investors and seniors who've been told that they "can't lose money" investing in equity-indexed annuities or who have been led to believe that ultra-short bond funds are a low-risk alternative to money market funds or insured certificates of deposit. These assertions are simply not true. Investors can lose money buying an equity-indexed annuity, especially if the investor needs to cancel the annuity early. Ultra-short bonds can vary significantly in their risks and rewards.

The second challenge is avoiding outright scams. Fraud comes in many flavors and fraudsters can turn on a dime when it comes to tailoring their pitches to capitalize on the latest trends, from hedge fund investing to charity schemes. But most frauds are not new. Instead, they're the same old con jobs wrapped up in new packaging. The frauds targeted at seniors mirror the frauds aimed at broader audiences: "Ponzi" or pyramid schemes; "promissory notes" sold to retail investors; other questionable debt instruments that are pitched as providing guaranteed income; and classic "pump and dump" market manipulations. A Ponzi scheme is a type of illegal pyramid scheme in which money from new investors is used to pay off earlier investors until the whole scheme collapses. In a pump and dump scheme, fraudsters drive up the price of a company's stock (typically a microcap or penny stock) using false and misleading statements and then sell at a peak. Once the fraudsters quit touting the stock, the price typically plummets, leaving investors holding worthless or next to worthless securities.

III. Recent Enforcement Efforts Aimed at Protecting Seniors

Over the past two years alone, the SEC's Division of Enforcement has brought at least 26 enforcement actions aimed specifically at protecting elderly investors. Many of these actions were coordinated with state authorities. In one notable case, *SEC v. D.W. Heath and Associates*, the Commission coordinated with the Riverside County District Attorney's Office to crack down on a \$144.8 million Ponzi scheme that lured elderly victims in southern California to workshops with the promise of free food. The fraudsters then bilked them out of their retirement money by purporting to sell them safe, guaranteed notes.

Earlier this month, in *SEC v. Reinhard et al.*, the Commission obtained an injunction halting another alleged Ponzi scheme, this time in Allentown, Pennsylvania. The Commission's complaint alleges that the defendants raised more than \$3.9 million from at least 50 investors in several states by claiming to sell certificates of deposit that did not exist. The complaint further alleges that the primary salesman lured investors, many of whom are elderly, with promises of above-market rates on FDIC-insured CDs purportedly issued by a non-existent entity called the "Liberty Certificate of Deposit Trust Fund;" and that the defendants distributed fictitious investment documents and account statements to attract investors and to ensure they continued to invest in the scheme.

The SEC's enforcement staff will continue to aggressively investigate and file actions against those who prey upon senior citizens. In particular, the SEC will continue

to bring emergency actions to shut down ongoing offering frauds and thereby prevent further investor harm and recover assets. These cases often involve frauds that lure prospective investors with claims of outlandish returns and purportedly risk free investments. These schemes involve investments of all types – e.g., limited partnerships or other interests in oil and gas, real estate or other ventures, promissory notes, and “fake certificates of deposit,” to name just a few.

IV. Examination Initiatives

Our examination program aims to detect fraud and other possible violations of the federal securities laws; foster compliance with these laws; and inform the Commission and its staff of compliance issues. The Commission’s Office of Compliance Inspections and Examinations (OCIE) uses risk-based techniques to focus resources on those activities that could pose the greatest compliance risk to investors and the integrity of the markets.

As our Chairman recently announced, OCIE, along with the NASD and the State of Florida, will soon be conducting a series of examinations of broker-dealers and advisers that lure seniors to attend sales seminars, sometimes at fancy hotels and restaurants, with promises of a free lunch. While these sales seminars may be perfectly fine and may provide a free meal, the fact is that sometimes they are used to pitch unsuitable products, using high pressure sales tactics. Our examiners will be conducting examinations of the firms that sponsor these seminars to see whether these sales seminars are supervised, that salespeople are not making wild claims of possible returns on investment, and that the risks inherent in any investment are disclosed to prospective investors. And, more broadly, regulators will also be sharing customer complaints in an effort to identify firms that may be using inappropriate sales tactics to sell securities to seniors.

V. The SEC’s Investor Education Program

We passionately believe in the importance of educating all Americans so that they can optimize their chances to reach their personal savings and investing goals. With nearly one-third of all U.S. investors between 50 and 64 years of age it is critical that older Americans get the facts they need to make wise financial decisions and avoid costly mistakes.

My office’s contacts with investors underscore that, in the context of a sale of a financial product, it can often be difficult for investors, especially seniors citizens, to evaluate the product’s features and real costs, to determine whether the information in sales literature or disclosure documents is accurate and complete, and to weigh the product’s risks and rewards. It can be harder still to ascertain what incentives the salesperson has in the deal and to assess whether the salesperson’s representation of the product might be clouded by his or her potential financial gain. That’s why at the SEC we spend a great deal of time creating and disseminating neutral, unbiased information directed at helping people make wise investment choices and avoid fraud.

While we cannot tell investors which products to purchase, we can and do arm them with the information they need to assess various products and investment strategies. The dominant theme of the SEC's investor education materials is "investigate *before* you invest." We encourage individuals to ask questions and to check out the background and credentials of any salesperson or financial professional they use. In addition, we give investors resources for researching companies and tips for avoiding fraud. We do not copyright any of our materials, and we make them freely available to all, in both Spanish and English. Our goal is to empower investors, to give them the tools they need to evaluate their investment options and make informed decisions.

We know that many seniors, and many children and caregivers of seniors, use the Internet to search for information on investing. That is why we created a page on our website aimed specifically at senior citizens. This page provides links to critical information on investments that are commonly marketed to seniors — including variable annuities, equity-indexed annuities, promissory notes, and certificates of deposit. It also warns against the dangers of listening to the sales pitches of cold-callers and alerts seniors to the very real threat of affinity fraud — scams that prey upon members of identifiable groups, such as religious or ethnic communities, professional groups, or the elderly. Senior citizens who want to learn more can browse through our "Senior Care Package," a collection on our website of our most popular brochures for seniors (which are also available in hard-copy). Illustrative examples of brochures that we publish that might be of special interest to seniors include: *Cold Calling* and *Variable Annuities: What You Should Know*.

One of the most successful educational tools that we have found in recent years has been — if you will — running our own con on gullible investors. Experience has shown us that some investors troll the Internet to identify the next "big thing," the next sure-fire investment winner. We have discovered that these folks, some of whom turn out to be victims in the enforcement actions we bring, did not visit www.sec.gov to get the benefit of our prudent, sensible advice before investing in a get-rich-quick scheme. Knowing all of this, we go to our audience, instead of expecting them to come to us. We run a series of fake investment scams on the Internet, all designed to illustrate the warning signs of on-line investment fraud. Each scam boasts a "can't-miss" investment, offering truly unbelievable returns. If the user clicks to invest, he or she gets a message from us about the necessity of researching before investing. Our goal is to warn investors about fraud *before* they lose their money.

Our most recent foray into the world of Internet fraud is a Katrina-related "fake scam site" at GrowthVenture.com. Like our other fake scam sites, Growth Venture purports to be a no-brainer investment. But if you click to invest, you'll get a stern warning from us, the FBI, U.S. Postal Inspection Service, and NASD. Our other fake scam sites cover initial public offerings, hedge funds, mutual funds, and online newsletters that tout emerging technology and pharmaceutical companies.

VI. Coordination with Other Parties

Helping our nation's seniors is not a task that can be undertaken solely by the federal government. Efforts by multiple parties play an important role in equipping consumers with needed financial skills. Coordinated actions can efficiently reach seniors with high-quality, unbiased information. That's why the SEC works with others to leverage our efforts.

All those with authority should focus enforcement, examination, and investor education efforts in areas where seniors may be most vulnerable. On the education front, we and our colleagues at NASD recently have targeted efforts to reach seniors, including those who are being asked to attend these "free lunch" seminars. We are also reaching out to state regulators to support their Seniors Against Investment Fraud (SAIF) programs, starting first in California and Florida. Within the limits of staffing and budget constraints, we attend investor fairs and speak at gatherings, including those organized by senior groups. For example, we regularly participate in AARP's National Event & Expo, reaching thousands in a targeted forum designed specifically for seniors. Whenever possible, my staff and staff in the Commission's field offices also meet with smaller gatherings of seniors.

SEC regional and district offices will work closely with self-regulatory organizations as well as federal, state, and local criminal and civil agencies to identify possible fraudulent offerings that target seniors. As part of our examination initiative, the SEC will also coordinate with other regulators, including with self-regulatory organizations and state securities regulators, with respect to examinations of broker-dealers and advisers. Regional examination planning "summit meetings" will include sharing information with respect to firms that specialize in recommending securities or providing advice to seniors. In particular, regulators will share customer complaints and other information that may indicate that firms are targeting seniors for inappropriate sales of securities, and will conduct on-site examinations of these firms.

We welcome any suggestions from our fellow panelists today and from the Committee as to coordination ideas we might employ in the future to enhance senior protection.

VII. Conclusion

In closing, I would like to thank the Committee members for recognizing the importance of the Commission's efforts in helping our nation's seniors to rest more easily with their investment decisions. I appreciate your inviting me to speak on behalf of the Commission, and I would be happy to answer any questions that you may have.

Senator KOHL. Thank you, Ms. Wyderko.

Ms. STRUCK, it seems that, in most cases, by the time your office receives a complaint, the senior's investment money is long gone. What type of proactive investigations does your office undertake to detect potential scams before they go too far?

Ms. STRUCK. Thank you, Senator Kohl, for the opportunity to answer these questions.

We have an exam program that allows our examiners to go into the offices of securities professionals, and that is why in my testimony I stressed the importance of including certain products, such as variable annuities, as securities under our State laws.

Because if we don't have the authority to regulate the people selling those products, then we don't have the ability to look at what is going on in their offices and make sure that the sales practices that they are engaging in with investors, including seniors, are fair and appropriate.

In addition, we are engaged in a number of educational efforts. One of the newest ones that we are excited about, that Wisconsin has just signed on for, is in conjunction with the AARP, and that is called the Campaign for Safe and Wise Investing.

What that will do is to take members of our staff, as well as representatives of the AARP, into local communities throughout the State to meet in comfortable surroundings with investors to answer their questions and help provide education for them, tips on how to protect themselves when they are dealing with a financial professional.

Senator KOHL. How often do senior victims of investment fraud recover the money that they lost?

Ms. STRUCK. It is very rare, unfortunately, for investors ever to recover the money lost in an investment scheme. There are occasions where money has been recovered, but most times by the time—as in the situation that Mrs. Mitchell outlined or the case that I outlined, Kenneth Hackbarth, the pastor from Wisconsin—once the money has been spent on a lavish lifestyle of the person collecting the money, it is too late, and there is nothing left to gain back for investors.

Senator KOHL. Ms. Walter, disclosure of key information, such as fees and penalties, is an important way to protect seniors from unexpected losses. So how can we make it easier for seniors to receive the information they need to make informed decisions without overwhelming them with the piles of documents and legalese that so often—

Ms. WALTER. That is a very important question. The SEC currently has outstanding a proposal specifically with respect to mutual funds and certain other products, including variable annuities, to provide point of sale disclosure. That means short, to the point, plain English disclosure at the time or right before an investor actually makes a decision to invest that outlines those fees and penalties.

NASD put together an industry task force of experts in both securities firms and mutual fund firms and has submitted comments and a task force report to the SEC strongly supporting that item. So that we put together a prototype disclosure document that includes disclosure of fees and expenses, and we also think it is im-

portant to include short, to the point, plain English disclosure of the main features of an investment.

I know that proposal is on the SEC's agenda to move forward with this year.

Senator KOHL. Ms. Walter, as we have learned today, making sure an investment is suitable for an investor's specific situation is very important. How does NASD enforce the suitability rules it has in place for its member brokers and dealers?

Ms. WALTER. There are a number of avenues. As you have heard, the States have an examination program. We have a national examination program, and it consists of two main parts. First, there are routine exams where we go in on a periodic basis and examine the firms, and the length of time between those exams is determined by the risk that firm presents based on a number of different factors.

In addition, as I mentioned in my oral statement, we investigate or we review every single customer complaint we receive. So if a customer has a complaint, they can be assured that someone at NASD will be looking at that.

We have sweeps, which, in addition to our normal exam program, target specific areas where we think that there may be a problem, whether there are specific types of conduct, specific lines of business, and specific products.

When we bring enforcement actions, I certainly agree that it is all too rare that people get their money back. But we have made it a priority in our enforcement actions where there are specific victims that have been identified, if there is money, to order restitution so that when it is still available and hasn't been absconded with, investors can perhaps get their money back through that vehicle as well.

Senator KOHL. Thank you.

Ms. Wyderko, just a few days ago, SEC Chairman Cox said that the agency is stepping up its efforts to protect elderly investors from fraud. Can you tell us a little bit more about what these efforts are? Aside from looking at sales seminars, what else will these new efforts focus on?

Ms. WYDERKO. Our efforts are going to be focused on a double-barreled approach. As Patty Struck said, we also believe that aggressive enforcement, coupled with aggressive investor education, is the best way to go.

So our inspections folks will be working with other regulators, the NASD and the State securities regulators, to go look at seminars that are targeted to elderly Americans. I think that is a very important place to begin. We will also be looking at our enforcement cases and bringing them aggressively where appropriate.

As Mr. Minkow said, we do see cases of affinity fraud, where fraudsters go into a community and bring together people with a certain attribute, whether it be a church affiliation or elderly people or some other affiliation, and they try and bilk them out of their savings in that fashion. So, we aggressively go after cases of Ponzi schemes like that, affinity frauds where we see them.

We are also working with State securities regulators and others to disseminate investor education materials. This is very important

to the extent we can get the word out to elderly Americans that it is OK to hang up on cold callers.

We need to get out the word to empower Americans to ask how the securities salesperson is being paid, being compensated for a transaction. We need to get the word out that it is not embarrassing or inappropriate to ask questions about an investment opportunity that you don't understand.

In this way, we can empower Americans to protect themselves, which is really our best defense against fraud.

Senator KOHL. Mr. Minkow from our first panel stated that investment scam artists aren't really concerned about being caught because they know that regulatory and enforcement agencies are not focused on them and don't have the resources that they need to do their jobs. What are your thoughts on the comments that he made?

Ms. WYDERKO. I think we do have a lot of resources that we are bringing to this problem, and I will note for the record that he did go to prison.

Senator KOHL. That is pretty definitive. [Laughter.]

I would like to ask all three of you what is it about people who are in their senior years makes them more vulnerable to investment scam or, in fact, are they more vulnerable? Ms. Struck.

Ms. STRUCK. It does seem that the older people get, the more vulnerable they become. While I am not a physician or a psychologist and I don't understand why that happens, my friends and I talk about this all the time.

I ran into a friend who is an insurance regulator a couple of weeks ago, and we were talking about just this question. She said, "Patty, I don't know what it is, but I am just so terrified that it is going to happen to my mother."

So while I can't explain it, it is something on which all regulators, social scientists, journalists, and all reasonable people seem to agree. It happens as people get older. They just become more vulnerable.

Senator KOHL. Hmm. Do you agree with that, Ms. Walter?

Ms. WALTER. I do. Part of the reason is because older investors have gone through their wealth accumulation phase. So they probably have more funds available than they had at any other point in their lives.

We certainly agree that we don't have all the answers. That is one of the reasons that we have funded this WISE Seniors Services grant I mentioned earlier.

They, with AARP, are going to do research to determine that, to try to determine if there is a specific fraud vulnerability profile, not only just being older, but who in particular do they target among the older citizens? So that we can target our educational efforts and perhaps our regulatory efforts as well to try to keep this from happening.

Senator KOHL. It is interesting because you think of one of the profiles of older people is they become a little bit more cautious, more conservative, more careful. Yet you are suggesting that they are, Ms. Wyderko, more susceptible?

Ms. WYDERKO. My theory is that our seniors in America grew up in a different culture. They grew up being taught that it was im-

lite to hang up on people. They grew up believing that if someone said they were your friend, in fact, they were your friend.

I believe that they grew up in a more trusting era of our Nation's history, and that as the rules—the culture has moved and the rules of the game have changed, that fraudsters are taking advantage of our seniors and their trusting, unwillingness to suspend their disbelief.

Senator KOHL. To each of you, we have heard today about the issue of unregistered and unlicensed individuals selling unregistered securities. So what do you all think is the best way to address this problem? Ms. Struck.

Ms. STRUCK. Just to underscore the most important message that we can deliver is this twofold way of addressing the problem. One is through aggressive enforcement as the NASD, the SEC, and State regulators bring to bear against this problem. We need to aggressively enforce our laws.

The other way is through the programs that we have described today that reach out and actually have an impact on senior investors.

Senator KOHL. Ms. Walter.

Ms. WALTER. Come back to the basic point that I think we have all emphasized is that you need to know with whom you are dealing. The very first thing someone needs to do when they have located a potential advisor or financial consultant or someone is offering them a deal that may be too good to be true is to check out that person.

You can do that through NASD, and you can do it through your State securities regulator. If, in fact, those systems come up blank—there is no registration, either at the State level or at the Federal level—that itself is a red flag.

We really, through our educational efforts, have to encourage people to be very suspicious if they are dealing with someone who isn't registered with a regulatory authority.

Senator KOHL. Do you agree with that, Ms. Wyderko?

Ms. WYDERKO. I do. I would add that we all need to redouble our efforts to get out the fundamental message that if an investment opportunity sounds too good to be true, it most definitely is too good to be true.

We all need to work together to share enforcement tips and leads that we get. I know that we all keep data bases and share complaints from customers, and we need to be aggressive in following up on those.

Senator KOHL. Well, we thank you all very much for being here today. Unfortunately, our Chairman, Gordon Smith, is stuck in a markup this morning, and he won't have a chance to make it.

Much work remains to be done, and I look forward to working with you to put an end to seniors losing their hard-earned retirement money to scams. As we have said today, we need to continue to educate seniors about the traps and the snares that they are facing. We also plan to work on common sense legislation that will tighten the rules regarding who is selling securities and how those securities are being sold.

In addition, we will be working to ensure that enforcement and regulatory agencies have the resources and the training they need to combat investment fraud.

So thank you so much for coming. I think you have added a lot to the discussion, and we look forward to working with you.

This hearing is closed.

[Whereupon, at 11:06 a.m., the committee was adjourned.]

A P P E N D I X



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Mar 18 06 01:02p

Don Scott

360-681-4017

**Don and Judy Scott
P. O Box 2697
Sequim, Washington 98382
(360) 582-9354**

March 18th, 2006

Senator Herb Kohl
Ranking Member
Special Committee on the Aging
Washington, DC 20510-6400

Dear Senator Kohl and Committee Members:

My name is Don Scott and I am 79 years old and I live in Sequim, Washington. I am writing this letter in hopes that you will read it carefully and use my experiences to help others who may be what I call "elderly and vulnerable."

I am a firm believer in things happening for a reason. Although my wife Judy and I live in Sequim, last January 2005 we were visiting San Diego, California. While watching the morning news on the local KUSI affiliate, I saw an interview with Barry Minkow. He was talking about his recently released book, his past life as a criminal and his current life working under cover for law enforcement identifying financial crimes in progress. And that's when I first heard Barry mention a factoring fraud that he had uncovered totaling over 55 million dollars called MX Factors.

You see, my wife and I had recently invested \$210,000 in a company called Par Three Financial. This company offered returns of 30% a year and claimed to be factoring receivables for check cashing companies. Since a banker friend of mine recommended me to the deal, I initially had no fears that the company was a solid investment. That is until I saw Barry in this interview.

Since this money was most of our life savings and since there was no possible way I could ever earn it again at my age, I visited Barry's church in San Diego. After a service I introduced myself to him and explained my investment in Par Three Financial. I also gave him all the paper work and the company web site. Barry promised that he would check it out and then he said something that I will never forget. He told me that no matter what, he would get my money back. I felt comforted and my wife and I decided to trust Barry with what amounted to our life savings.

Within 48 hours Barry called me and explained that after thoroughly reviewing the materials he believed that Par Three Financial was perpetrating a large fraud. He told me to do two things. First, he asked that I introduce him to Par Three Financial as a potential investor which I did immediately. Then he told me I would need to cooperate with three people from law enforcement—Peter Delgreco at the SEC in Los Angeles; Peter Norell from the FBI office in Santa Ana and Karen Patterson from the California Department of Corporations. He assured me that these people could be trusted and needed to know the truth about my investment in Par Three Financial.

Meanwhile, Par Three Financial was actively soliciting new investment capital from people across the country through adds in newspapers and their web site. The company even offered current investors a commission for bringing in new investors.

Then, in only a matter of days, Barry submitted to me a detailed 32 page report addressed to law enforcement that he had written which I am including as an addendum to this letter. The report proved to me beyond any doubt that Par Three Financial was a financial crime in progress. Barry went so far as to hire an outside expert in the banking industry who stated that Par Three's business model was untenable. Barry asked me to not yet share the report with anyone and to continue to cooperate with law enforcement. He then said that I should create a reason to ask Par Three for my money back. He also reassured me and told me not to worry about my investment. "You will get your money back, Don. I promise." Barry would always say.

Simultaneously Barry was promising the people at Par Three that he would invest his money once I received my money back. Although it took several weeks and many phone calls, the company returned my \$200,000. I couldn't believe it!

The other \$10,000 I invested through my IRA and I was told it would "take longer to process the paper work." As soon as I got my \$200,000 back, the Associated Press printed a story based on Barry's report questioning the Par Three Financial business model. Within weeks after that article, the company was shut down by the SEC and the FBI and the California Department of Corporations. It was then I discovered that there were investors all over the country and millions of dollars had been raised.

As it turns out, the person behind perpetrating the Par Three fraud was a convicted felon. What an irony. A convicted felon stole my money and a convicted felon got it back for me. If this didn't happen to me, I wouldn't have believed it.

Today my wife and I work with the court appointed receiver in Florida to recover our final \$10,000. However, that we were able to recover our \$200,000 literally saved our financial lives. Which brings me to my last point.

Mar 18 06 01:02p

Don Scott

360-681-4017

Barry Minkow never charged me. He never asked me for any money. Even when I offered him money he did not accept it. And although to this day I don't know all the details as it relates to the question of "how," he promised me I would receive my money back--and I did. But other stories do not share such a happy ending. I applaud you Senator Kohl and the entire committee for asking the right question: how do we protect seniors?

My advice is three fold. First, we have obvious vulnerability. We do not want to out live our savings and will therefore be forever vulnerable to these types of investment scams. So we invest out of fear and fear can cloud good judgment. Second, that law enforcement would follow the lead of Peter Delgreco, Peter Norell and Karen Patterson and be more proactive in identifying, infiltrating and shutting down these schemes proactively.

Finally, please never underestimate the shame and embarrassment factor. We who have fallen for a scam may hide it from our kids out of sheer embarrassment. I know I had those feelings. I did not want to believe I had placed almost my entire life savings in a fraud. Disclosure is a real issue for those of us who fear how we may be perceived by our children.

I hope and pray that my experiences can help prevent the elderly from being victimized. I truly mean that. If I can answer any further questions, please do not hesitate to call me at (360) 582-9354. I am not in good health so I cannot travel anymore, but am available by phone. As for Barry Minkow, what he did for me will not make the front page of any newspaper. Funny isn't it? Had he perpetrated this Par Three fraud the whole world would have known about it but since he uncovered it and got an old man from Sequim, Washington his money back and proved that people can change—well, I guess that's not much of a story. Thank you Senator Kohl and the others on the panel for making it one.

Respectfully Submitted



Don Scott



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March 21, 2006

Chairman Smith and Senator Kohl
 US Senate Special Committee on the Aging

Dear Chairman Smith and Senator Kohl and Committee members:

I hope this letter finds you well. I have never written to the US Senate so forgive me in advance for any procedural errors. I want to briefly tell my story because I think it will have an impact on the work this committee is trying to accomplish. I want to warn you in advance that what I am about to write to you is simply impossible to believe. I think you need to know that in advance. However, I can corroborate everything within this letter and simply ask that you read it with an open mind. Again, I believe it will be worth your time.

My name is Josh Kritek and I own a company called Synergy Consulting in Los Angeles. My wife and I often diversify our investment portfolio by investing in certain seemingly profitable business opportunities. In March of 2005 one such opportunity that we invested in was a company called **Rainmaker Real Estate Partners--** which had offices in New York and Los Angeles.

The company was run by an attorney named Alireza Dilmaghani and essentially sought investment capital **to build assisted living homes for the elderly**. The company promised investors a 25% annual return through their web site and ads placed in newspapers in Los Angeles and New York. They would use the investment capital to build and manage assisted living facilities in New York and Los Angeles. Although I am only 35 years old, my parents are 76 (father) and 68 (mother). I saw this as an opportunity to make money and to help the elderly find housing.

Rainmaker Real Estate Partners was also seeking money **directly from elderly people in need of assisted living**. In exchange for the equity in the home that they were currently living in, the perspective elderly investor could secure, for \$250,000, a living space in a newly constructed Rainmaker Real Estate development. Thus, this business opportunity materially impacted the elderly.

My wife and I ultimately invested \$110,000 into the Rainmaker investment opportunity. However, in May of 2005 we became suspicious after watching a 60 Minutes episode where Steve Kroft was interviewing one time felon Barry Minkow. I immediately contacted Mr. Minkow and told him about the Rainmaker deal. He asked for the web site and the various

March 21, 2006
Chairman Smith and Senator Kohl

email communications between the company and myself along with all other relevant materials.

In a matter of days Mr. Minkow called me and told me to withdraw my \$110,000 principle investment. In that short amount of time between when I first contacted Mr. Minkow and when he called me back he had written a 40 page report documenting various inconsistencies in the Rainmaker business model including pictures of facilities the company supposedly owned and was running in Long Island that did not appear to exist.

He also had hired an expert in the assisted care facility business who proved that Rainmaker had none of the necessary licenses in California or New York to operate an assisted living facility. The report then went on to prove that although Mr. Dilmaghani was a lawyer, he was apparently not aware of the securities laws as he was clearly offering an unregistered security via the internet to the general public.

Simultaneously, Mr. Minkow also contacted the FBI in Long Island and the SEC in Los Angeles and informed them of the scheme and the evidence he had secured. Based on his report, my wife and I asked and later received our full investment back. It was not long after that when the FBI and the SEC raided the New York and Los Angeles facilities of the Rainmaker operation.

After the company was raided, the lawyer, Mr. Alireza Dilmaghani who owned Rainmaker told the New York Post that the SEC and the FBI were trusting the word of a convicted felon to interrupt his legitimate business operation and that he was going to sue Mr. Minkow for his actions. Then his associates on the west coast who brought me into the investment made similar threats to me and my wife.

However within days of making those threats, Mr. Dilmaghani signed a TRO admitting he was offering an unregistered security and misleading investors through misrepresentation. His partner has fled the country and is still being sought by law enforcement. Rainmaker is no more but thanks to the proactive work of Mr. Minkow, cash was frozen in their accounts and is in the process of being returned to investors. People will lose some of their principle, but it will not be the entire investment. **And most importantly of all, the elderly have been taken out of harms way.**

And if the above is not believable enough for you, wait until you hear this. I had made another investment in a real estate deal and was having trouble collecting my original investment. I ran it by Barry Minkow and told him the person I had invested with was Edward Showalter. There was a long pause on the phone before Barry asked for the materials and

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man Smith and Senator Kohl

mediately sent me by email a Wall Street Journal article written by
me and dated August 2003.

Barry talked about how Barry uncovered the case of Ed Showalter (a
guy) who was then trying to raise millions of dollars for a
national cement company. Barry once again contacted the FBI
and helped me and other investors piece together the 20
real estate fraud Mr. Showalter was perpetrating. The SEC
brought Showalter down in November of 2005 and he is currently in
negotiations with the US Attorney's office for criminal charges.

I asked Mr. Minkow many times how much he charges for his "uncon-
cealed" services. The standard answer I received was: "Don't
ask me." To this date he has never asked me for a dime for what
he has done for my wife and his services. He explained that his train-
ing engagements that he does regularly fund his undercover
work as a kind of "restitution" for his past.

When you have it--a story that if it did not happen to me, I would
not have believed it. But it did happen. And there is one thing I know.
If I had called Barry Minkow I would have never predicted that he
could, in a matter of weeks, uncover two frauds and save me and
other investors hundreds of thousands of dollars. What did he
do? He got threatened by the perpetrator.

It is not known if all prison conversion stories turn out like Mr. Min-
kow's. We can only hope for the sake of the investing public that the
Houseman Smith and Senator Kohl and members of the committee.
Thank you for taking the time and reading this letter.

Sincerely,



Barry Minkow

Barry Consulting, LLC



FILED 2019-01-15 10:00 AM U.S. DISTRICT COURT SOUTHERN DISTRICT OF NEW YORK

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**Written Testimony for
Special Committee on the Aging**

By Barry Minkow



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March 20, 2006

Dear Senator Kohl, Mr. Chairman and other members of the committee:

It is a real honor to be able to appear before this committee. It is not everyday that we convicted felons get a chance like this so I hope I do not waste this opportunity. I do not think you need someone like me to give the committee a whole lot of statistics on financial fraud and its impact on the elderly. There are those that are far better equipped and educated to provide that kind of data. I would rather focus on what I can uniquely bring to the discussion based on my past and current experiences in fraud perpetration (much to my shame) and now in fraud detection. So I will open with a few facts about fraud.

Facts about Fraud

First, let me define what I mean by the term "fraud." In the world of fraud perpetration it is not a legal definition but a pragmatic one. Fraud is the skin of the truth stuffed with a lie. This is why it is hard for the elderly and other investors to identify it. By this definition I mean that in my fraud, we really did have 23 locations, lots of carpet cleaning trucks and equipment and 1,400 employees. And if you called any of those offices we would be there to clean carpets and furniture so on the surface "skin" we looked good. However, the "stuffed with a lie" part of the ZZZZ Best fraud was the restoration jobs that we claimed to be completing which accounted for 86% of our revenues. Those restoration jobs never existed. Successful education to the elderly in the area of financial fraud prevention must equip people to peel away the mask (skin) and look underneath (the stuffed with a lie component).

Second, let me explain why we who perpetrate fraud actually perpetrate fraud. Forgive the simplicity of this answer but we perpetrate fraud because we do not think we are perpetrating fraud. Sure it is illegal to lie about earnings, hide debt and promise returns that are extraordinary but if you just knew our story and that we have a big deal coming that will provide enough revenues to "cure" our indebtedness, then you would realize that fraud is not an end in itself but merely a means to an end. A "means" we willingly justify.

Whether you look at my case where I tried to survive long enough until my personal ZZZZ Best stock became free trading so I could sell a million shares at 18 dollars a share,



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and with the proceeds pay off the mafia, pay off the Ponzi scheme and go legitimate or the case of Martin L. Grass from Rite Aid who "got dirty with the books" because he was opening 3,000 new stores and ran into computer integration problems and knew the stores would eventually make money so he lied to the auditors "temporarily" until those stores became profitable, we who perpetrate fraud convince ourselves that we really are not crooks. That way we can sleep at night knowing our condition of deceit is only temporary.

In the case of James Lewis of Financial Advisory Consultants which ended up being the largest and longest running Ponzi scheme in American business history (almost 20 years) he lost 20 million of investor money in high risk foreign currency trades hoping to "hit it big" and pay everyone back or cure his liabilities. The same was true in the case of Nick Leeson while he was trading at Barings PLC in England. A 223-year-old bank lost a billion dollars and went under all because Mr. Lesson continued to hide trading losses hoping to recoup those losses with even riskier trades.¹ My point is that we rationalize our criminal behavior to appease our conscious through the mental vehicle of "the cure."

Fact number three, we usually start out with the best of intentions. Of course this does not justify our actions but I did not open a carpet cleaning company in my parent's garage when I was 16 years old to end up committing a 26 million dollar securities fraud by the time I was 21. Admittedly the FBI may disagree with me on this issue as it has come up before in my training sessions (they believe certain people start out from the beginning to perpetrate fraud) and I concede that this may be true but for the majority of frauds that I have been involved in uncovering and from the people I spoke with in prison during my 87 month incarceration, most appear to have started out with the best of intentions and then when economic pressure hit to survive they began a life of deceit. In my case, I initially really wanted to do what was right, but was sadly prepared to do what was wrong to survive.

I call it the "right equals forward motion" ethic. "Right" being defined as achievement at any cost and "wrong" being defined as any auditor, board member or person performing due diligence on me who gets in the way of my achieving. Sadly it would appear that the "right equals forward motion" is the ethic appealed to by every college person who cheats their way through school because they have become convinced that society judges them based on achievement (the degree) not how they earned that degree (perhaps cheating along the way). This "right equals forward motion" ethic was the one I implemented at ZZZZ Best.

¹ I think the movie *Rogue Trader* did a good job of capturing this fact in the Nick Leeson story.



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What Perpetrators of Fraud Fear the Most

Now let me transition to what perpetrators of fraud fear the most. Three things come to mind. First, we fear the unknown variable. The "unknown variable" is that thing that we cannot control or anticipate that ends up exposing our illegal activities. The unknown variable ranges from a falling out among thieves where one turns on another or a sudden, unexpected drop in sales or the one that brought down the ZZZZ Best fraud—investigative reporting. No perpetrator of fraud wants to be the target of a reporter who is investigating their business dealings. At ZZZZ Best it was a diligent writer from the *Los Angeles Times* that found out about my past fraudulent credit card billings and wrote an article that prompted further investigation of my operations. Another recent example would be the case of Congressman Randy "Duke" Cunningham whose house sale and subsequent questionable activities were first reported by the *San Diego Union Tribune*, which led to further investigation. The media is a powerful, proactive tool that can help protect the elderly from fraud because those who perpetrate fraud fear that if undue attention is brought to their activities, someone may uncover what "we" are trying to hide that could unravel our fraudulent activities.

There is one very recent example of the proactive power of investigative reporting in uncovering fraud. In February of 2006, Mark Maremont, a reporter from the *Wall Street Journal* decided to run a story on the Internet "autosurf" industry. I first contacted Mr. Maremont in January of 2006 and told him about this industry and a certain company we were gathering information about for the FBI, which was also turned over to the SEC in Los Angeles. I subsequently forwarded a copy of our completed report on January 31, 2006.²

It did not take long for Mr. Maremont to establish that the one company that we were investigating had 300,000 participants and had raised over 50 million dollars. Mr. Maremont wrote his initial article on February 13, 2006 and within two weeks Peter Delgreco at the SEC in Los Angeles shut down this company, froze some 50 million dollars in cash for victim recovery and then issued a formal warning on the autosurf industry to protect the public in the future.

My point is that we who perpetrate fraud do not want to be the target of investigative reporting. However and sadly, fewer and fewer reporters have time to do investigative reporting. Things have changed since the ZZZZ Best days. It would appear that today editors of major newspapers and magazines are far more interested in simply reporting what has already happened as opposed to uncovering ongoing fraud. However, there are

² Before too much credit is given to me for this case, it should be stated that many people were skeptical about this industry before our involvement.



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some that still do investigative reporting and they are worth noting for the record because they have track records of saving the elderly and other investors millions of dollars.

Don Thompson at the *Associated Press* in Sacramento has done almost seven of our cases before there was law enforcement action. Scott Reckard at the *LA Times* still does this type of reporting as does Mark Maremont and Jeff Opdyke at the *Wall Street Journal*. And there are others. I realize that it is impossible to legislate the media to do this kind of reporting. However, I cannot ignore how important it is to encourage editors around the country that there is value in allocating resources to investigative reporting on the various scams that target the elderly and others.

The second thing perpetrators fear is critical thinking. We want people to make investment decisions into our "deals" subjectively rather than objectively. Three examples of the subjective approach are: (1) a close friend or relative has been receiving large returns monthly for extended periods of time therefore this investment must be legitimate or (2) the prospective investor has little to no knowledge of the industry they are contemplating an investment in and therefore do not possess the knowledge to ask the right critical, objective questions about the business model. This leaves them at the mercy of the warrants and representations of the promoter and finally (3) the blind and unsubstantiated acceptance of excessive returns because the perpetrator has successfully compared his or her potential returns with the current, underachieving returns of the victim.

My experience as a perpetrator and in the 15 or so cases of fraud we have worked proactively with law enforcement to uncover has taught me the importance of the objective approach to investment using what I call the "normally and regularly test." That means instead of basing a decision to invest based on my friend's experiences no matter how positive they may be, investors need to ask the following question: "Normally and regularly do people in the carpet cleaning industry generate 40% gross profit margins in the restoration business?" Or, "Normally and regularly do people in the factoring business have the profit margins available in that industry to pay investors 30% a year as a cost of capital?" The point is that when investors approach an opportunity, decisions to invest must be made objectively while applying critical thinking. And we who perpetrate fraud cannot stand people who apply critical thinking to our deals and often revert back to tactics like: "Well, I've got a lot of happy investors so your loss."

The issue is not happy investors. I had happy investors at ZZZZ Best. Most Ponzi schemes and fraudulent deals can point to happy investors. The issue is: does the business model hold up to the objective scrutiny applying critical thinking. Despite this being obvious in every fraud we have uncovered, investors have threatened me with lawsuits, called me an "ex-con who did not know business" or "jealous because I wasn't able to run a profitable company." Fortunately in just about every one of our cases the



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perpetrators eventually admitted guilt. The point? People hold onto the subjective method of investment methodology until the very end, despite what the objective evidence may reveal, which leads to the lack of independent proof of profitability.³

Investors subjectively accept the word of the promoter as it relates to his or her ability to generate huge returns without those returns being corroborated by any independent source. This was clearly prevalent in the Derek Turner Turning International fraud (he was recently sentenced to 20 years in federal prison). Mr. Turner claimed to be generating 38% annual returns trading stocks and options each year for nine straight years. The only problem was that he refused to provide investors with trading records to corroborate his trading success. He also did not offer investors any audited financial statements. However, that did not stop Mr. Turner from raising between 60 and 80 million dollars worldwide because people used the subjective method of evaluating his company. And yes, Mr. Turner had elderly victims including one man from New York who lost \$1,000,000 in Turning International.⁴

The third thing perpetrators fear is accountability. Consider the following points of similarity in the following cases: MX Factors, LLC run by Richard Harkless; Financial Solutions run by Chris Hashimoto; Financial Advisory Consultants run by James Lewis; Chicago Development and Planning run by Pat Morgen; Turning International run by Derek Turner; Par Three Financial; Rainmaker Real Estate run by Alireza Dilmaghani; and Ware Enterprises run by Warren Ware—all of these multi-million dollar companies had no audited financial statements, were largely 'one man shows' and had no system of internal controls which would discourage illegal activities. Now of course the presence of audited financial statements does not necessarily prove financial accuracy (Enron, WorldCom, etc.) but the absence of audited financial statements in companies that lack independent proof of profitability is clearly a red flag for fraud. In the above mentioned cases the standard answer that was given when the perpetrator was asked for audited financial statements was, "We are a private company and are therefore not required to provide financial statements."

Again, the points of similarity are (1) unsubstantiated returns (no independent proof of profitability), (2) organizations dominated by a single person who was accountable to no

³ In the case of the elderly, the promoter will often befriend and charm the individual and provide the attention that is perhaps lacking in their life hoping that the subjective relationship will blind the elderly investor of the truth about the investment.

⁴ It should be noted that in the case of Derek Turner, Special Agent Matt Galioto from the Long Island office of the FBI did an incredible job getting this company shut down in an 18-month investigation. The challenge in this case was Mr. Turner set up shop in the Bahamas but regularly solicited American investment capital. Matt Galioto and I traveled to the Bahamas using me as an undercover potential investor to secure the evidence needed to shut down this operation. Mr. Galioto was also the lead agent in the Rainmaker Real Estate fraud.



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one and (3) the promoter's reliance on potential investors subjectively analyzing their business models as opposed to applying critical and objective thinking.

The Latest Twists Perpetrators are Using Against the Elderly

The three things I fear the most as it relates to the elderly and investment fraud are (1) what I call the new emphasis on attracting retirement money or qualified money by perpetrators from investors and (2) the rush offshore to stay out of the reach and jurisdiction of law enforcement and (3) the huge increase in unregistered securities fraud.

Those of us who perpetrate fraud must continue to raise money to keep the scheme going. It is for this reason that most Ponzi schemes or investment frauds collapse from the sheer weight of paying those high returns. However, the new trend that I have seen which is an attempt by perpetrators to overcome this obstacle is the latest emphasis on attracting qualified retirement money from the elderly or from the general public. Why? In the ZZZZ Best fraud, I had to pay out high returns monthly and sometimes weekly which is a cash flow drain and always forced me to raise new investor money to pay off old investor debt.

However by convincing investors to use their retirement accounts to invest in these "deals," the perpetrator only needs to come up with monthly statements showing certain achieved returns rather than the actual cash because normally people cannot withdraw cash from retirement accounts before age 57 1/2 without a severe penalty. In the case of the elderly, they are told that without investing their retirement funds in "this deal" they may "outlive their retirement."⁵ Moreover, by accepting retirement money perpetrators impute credibility to their investment opportunity because there is an implied credibility associated with being an "IRS approved retirement investment." The implication is that before a company can accept retirement money from investors the IRS "checks them out." However, the reality is the IRS does not perform any due diligence on the authenticity of an investment opportunity and as long as there is an authorized custodian of transfer the legal burden for accepting qualified money has been met.

⁵ It should be stated that with the extra time provided the perpetrator through retirement money the perpetrator has more time to figure out the "cure" or create a vehicle to earn enough money to pay off investors (please see "why we who perpetrate fraud perpetrate fraud").



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Several of the cases we have worked on have had this acceptance of qualified money component. Financial Advisory Consultants, Triple Crown Enterprises and Par Three Financial just to name a few... and the trend appears to be increasing. The reason is because it solves many of the perpetrators' problems in that it imputes credibility to the investment and lessens the pressure to meet monthly or annual payment of investor returns.

My second fear is the move offshore with many investment opportunities. As has been stated earlier, Derek Turner intentionally used the Bahamas as his base of operation and yet focused much of his attention on American investors. Much of the "autosurf" industry has their operations in Belize or the Cayman Islands. Bogus tax shelters that target the elderly and young alike are often offshore. The appeal to the perpetrator is obvious: reach people in the US through the anonymity of the Internet or other means like ads in newspapers and magazines as well as word of mouth and avoid the scrutiny and accountability of US registration requirements. It is critical that law enforcement continues to send a message to these types of perpetrators like the one sent by the FBI in the Turning International case. Even those who perpetrate fraud offshore need to be on notice that they can and will be prosecuted.

Thirdly, it would appear that investment fraud costs the American public about 40 billion annually⁶ and much of that figure comes from a certain type of fraud—specifically unregistered securities fraud. In short, the elderly and the average American investor do not know the definition of a security and because of that are not able to recognize an unregistered security. Simply put, a security is not a stock or bond like most assume. An investment is a security whenever I (the promoter) take someone's money, promise them certain returns and invest that money in widgets, carpets or foreign currency trading—it does not matter.

What the elderly and others need to know is that a security does not have to be a stock or bond in order to have the licensing requirements that require said offerings to be sold only by licensed broker dealers and to have those offerings registered or blue skied in each state they are sold in. Out of the 15 cases we have been involved in uncovering with law enforcement, almost every one of them was deemed an unregistered security being offered by unlicensed broker dealers. Raising awareness in this one area about what constitutes a security under the definition of the law may go a long way in protecting the elderly. Why? Because where there is an unregistered security, there is most likely fraud

⁶ Please see email from Bernie Bicoy to me. Mr. Bicoy is the founder of the Venture Research Institute in Orange County, California and is a recognized expert in the field of investment fraud. Frankly he is a lot more educated about fraud than I am and I respect his views greatly. His email to me also includes some additional helpful insight regarding fraud against the elderly and how they are perceived as easy targets.



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and misrepresentation. But as of right now, I am afraid that few investors, especially the elderly, can identify an unregistered security.

My Recommendations

The best way to stop fraud is to talk people out of ever perpetrating it in the first place. This may sound naïve, but I am convinced that the two most important things to detour fraud—especially against the elderly—are to increase the perception of detection and the perception of prosecution. In my opinion the best-equipped agency to criminally investigate white-collar crime on a national level is the FBI. No other organization is even close. And I can speak from first hand experience about their ability to piece together sophisticated white-collar crime.

However, since the tragedy of 9-11-2001, a large part of the FBI resources have rightfully been committed to terrorism. My fear is that one of the reasons why financial crimes appear to have increased in the US over the past few years can be attributed to the fact that perpetrators think the FBI is too preoccupied with terrorism to devote the resources necessary to catch them. And when the perception of detection is low, perpetration increases. If I am convinced that there is a high likelihood that I can get away with a financial fraud I may be more inclined to perpetrate one.

The Senate and the Congress know this all too well because if Sarbanes-Oxley did anything it increased the perception of detection for CEOs and CFOs who may have had the inclination to cook the books in a public company before this law was passed. But what about the other 40 billion a year in investment fraud that is not under the jurisdiction of Sarbanes-Oxley? My recommendation would be to increase the FBI's budget so that they would be able to allocate more resources (agents) to white-collar crime. Besides, as we all have learned, behind every terrorist act there is a white-collar crime. My point is that I think that in order to increase the perception of detection, the FBI needs more agents working on bringing perpetrators to justice.

I have heard it said that for every one IRS criminal agent that is hired, on average that agent recovers four times the amount of his or her salary in tax fraud. I do not know the exact figure for the FBI as it relates to the monetary value of each new agent assigned to white-collar crime, but if you want my opinion from my experience in perpetrating and uncovering financial fraud, each new FBI agent assigned to investment fraud would recover at least ten times their salary in either seizures or court ordered restitution, all of which now go back to the victims of the crimes. And for the elderly that is critical.



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I would make the same recommendation for the Securities and Exchange Commission as it relates to an increase in staff designated for these types of frauds. Although primarily a civil enforcement agency, they have had tremendous success shutting down financial crimes in progress and helping victims receive recovery.⁷ The only problem I see is that some of the people the SEC shut down may surface again as a promoter of a new crime if not followed up by criminal prosecution (a referral made to the FBI).

This is exactly what happened in the Edward Showalter case. Mr. Showalter had two separate run-ins with the SEC in Washington and Los Angeles before he perpetrated a 20 million dollar real estate fraud involving hundreds of people and was sued once again by the SEC in November of 2005. The difference this time was the FBI in Santa Ana was brought in and special agent Peter Norell made sure that Mr. Showalter was criminally prosecuted and therefore will not be a repeat offender.

To assure that others like Showalter do not slip through the cracks, an intentional working relationship between the SEC and the FBI needs to be established.⁸ Take it from me, the only thing we criminals fear is criminal prosecution and jail—not fines or bans from the SEC.⁹ When the SEC files a lawsuit for fraud everything necessary for criminal prosecution is included in the great work they have already done. The investigative “heavy lifting” is complete and included in the court filing made by the SEC. Once a TRO is attained in federal court and a receiver assigned, fraud and misrepresentation has been proven. It is low hanging fruit for the FBI and the SEC should intentionally refer these cases to their local FBI office for follow up criminal prosecution. This will aid in increasing the perception of prosecution.

Another recommendation would be creative and innovative educational tools, which are helpful in protecting the elderly from fraud. Please forgive the shameless plug but we are in the process of creating DVDs targeting the children of the elderly (for the most part, everyone has a mom and dad that they care about) in hopes of the children taking the lead in protecting their parents from fraud. These DVDs will be creative in their presentation and identify the “top 10 frauds” that specifically target the elderly. Of course, others have similar tools that are equally effective including law enforcement agencies like the California State Attorney General’s office.¹⁰

⁷ In addition to, of course, their regulation of public companies.

⁸ Of course these two agencies have had several successful joint investigations. However, I am referring to the many cases the SEC investigates and sues without FBI involvement.

⁹ By making this statement I am not depreciating the significance of their work but am merely stating that they are limited to civil enforcement.

¹⁰ I was actually honored to be able to appear in this video project designed specifically to educate and protect the elderly.



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Another suggestion would be that law enforcement nationwide changes their approach as it relates to financial fraud investigations. In many instances, law enforcement will not investigate a crime until there is a complaining victim. This outdated methodology helps criminals. Why? Because as a perpetrator of fraud I know I must keep investors in my scheme happy by paying them on time so they will help recruit new investors into my deal and to prevent them from going to law enforcement. We keep this façade going until things fall apart and the fraud collapses.

Most law enforcement agencies will not even entertain opening an investigation on a company that has no victim complaint of a large, monetary loss and this approach plays into the hand of perpetrators. Law enforcement nationwide should examine the work of Karen Patterson at the California Department of Corporation, Peter Delgreco at the Securities and Exchange Commission in Los Angeles and Special Agents Peter Norell and Matt Galioto of the FBI as examples of successful prosecution based on probable cause as opposed to waiting for the fraud to collapse and victims to complain.¹¹

The probable cause test cares nothing about whether or not people are "receiving their promised returns" but instead focuses on objective tests like sources and uses of cash, whether or not an unregistered security is being offered and the tenability of the business model. The success the abovementioned law enforcement officials have in proactively uncovering fraud *before* the company in question collapsed and while there was still money to seize and return to victims is hard to argue against.¹²

My final suggestion, which would require minimal work and expense, is to reinforce investigative reporting when it works in protecting the public. Senators and members of Congress can simply jot a quick note to the editor or writer of the publication that breaks stories that protect the public from an ongoing fraud. Maybe then more editors will see the value of the "unknown variable" and how their unique position in the media can save the elderly from being targeted.

As I mentioned earlier, people like Don Thompson at the *Associated Press*, Scott Reckard at the *Los Angeles Times*, and Jeff Opdyke and Mark Maremont at the *Wall Street Journal* have long track records of proactive fraud pieces that have taken the public out of harm's way through accurate, investigative reporting. Believe me, no perpetrator wants newspapers and magazines focusing on investigative reporting.

¹¹ I am sure others in law enforcement take this proactive approach, but not many in my experience. Frauds we have uncovered have brought us to many states where law enforcement officials stated things like, "Bring me a victim and we will take a look."

¹² Of course, these law enforcement officials have worked cases that I have not been involved with and achieved the same result.



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Conclusion

Let me close by reminding the committee that I apologize if my testimony has come across like I am some kind of "know it all." I am not and if it has come across that way I ask in advance for your forgiveness. As I always tell my church congregation, I am a liar and a thief saved by the grace of God. I never lose sight of the fact that I have been given another chance in this life—one that I do not deserve. Today, I do not commit securities fraud but I still have a long way to go in becoming a better person. Just ask my wife or any elder at the church that I have pastored for over nine years.

I would also say that there are many others who have come out of prison that have far outperformed me in their contribution to society. That you would even entertain the testimony of someone like me is a privilege that I do not merit. However, I love this country and consider it an honor to help in any way you deem necessary to protect people—especially the elderly from financial ruin.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "B Minkow".

Barry Minkow

From: Bernie Bisoy [mailto:bernie@bisoy.com]
Sent: Monday, March 20, 2006 11:27 AM
To: [mailto:bernie@bisoy.com]
Subject: STATS AND EDITORIAL COMMENTS. Need more let me know.

The FBI estimates investment fraud at \$40 billion a year. This figure DOES NOT include the newer and more burgeoning areas of ID theft, which has it's own horrifying statistics.

On average the SEC files lawsuits against some \$5 billion a year in investment fraud. This DOES NOT include state securities, and attorney general lawsuits.

With these stats on hand, and with the VRI postings we can come to certain conclusions.

EDITORIAL POSTED ONLINE

88 NEW scams a day, averaging \$1.25 million, totally \$110 million in losses EACH DAY.

At VRI, "We are not under the illusion we catch all of the stories on financial scams. But let's assume for a minute that we do.

We post some 30 plus stories per day. Of those about half are 'new scams'. Assuming a 270 day year (we don't post on week ends) then in a given year there are over 4,000 'new scams' this site alone reports on every year.

How many are there that aren't caught and reported? We have noticed that the SEC launches civil lawsuits against some \$5 billion a year in financial scams. The FBI estimates that the actual amount of financial scams totals some \$40 billion a year.

That would mean that the amount caught by the SEC is some 12% of the scams 'out there'.

So, if 4,000 of 'scams reported' also equals 12%, then the total number of scams perpetrated on the investing public would be 32,000 a year. Or 2,666 a month. Or about 88 new scams, each day, every day.

How much does each scam steal from investors? \$40 billion dollars divided by 32,000 scams = \$1,250,000 average scam size.

The numbers 'seem' right, but its still seems hard to believe that we are losing (\$1,250,000 X 88) \$110 million dollars a day to scam artists, doesn't it? But \$110 million times 365 days does equal some \$40 billion, the FBI estimate.

And that's NOT an abstract ''they'' that's losing the money no matter what the 'real' figures, it's investors like you and me.

WHY IS INVESTMENT FRAUD SO PREVALENT.AND GROWING?

There is NO federal or state agency, police department, or regulatory agency state that focuses on helping investors avoid scams. There is NO 'fraud swat team' that leaps into action on the reports of investment scams. The reports and complaints trigger 'ongoing investigations' from one to two year, during which time the scam continues to operate, ripping off investors.

Like all criminal prosecution in this country the focus is on stopping the scams once they have started, and getting the money back if possible.

One cannot stop an investment scam until the civil and/or criminal act is established enough to launch a civil or criminal lawsuit. It is the ACT of defrauding investors that constitutes the crime, so the lawsuits always come after the damage has been done.

And once the damage has been done, the stolen money is dispersed and spent as fast as possible, leaving the average recovery rate on an investment scam about 7%, plus or minus 3 points.

There is also a tendency for agencies, DA's etc, to focus on monetarily large investment scams. But the bulk of the damage is done with the smaller investment scams on a day to day basis. See Editorial above.

This leaves the smart scam artists with a 'below the radar' loophole. If the scammer raises less than \$2 million dollars from his victims, and shuts down his operation within 2 years, the odds of his getting caught are nearly zero. If he is caught, there is no agency, DA or police force that cares enough to chase and/or prosecute the scam artist.

While the above statement may seem incredible, we have seen thousands of cases where it is true nonetheless. This is effect is NOT lost on the more intelligence scam artists, and we know of many who have ripped off people for 20 years or more, intuitively using this simple formula.

Investment scam artists have ONE talent, and one talent only. The ability to seem sincere and credible, and engender a great deal of 'trust'. And logically, this has to be so. If the scammer doesn't seem sincere, credible and likeable, he would not be able to scam people.

The term I have invented for this effect is CHARISMATIC SOCIOPATH.

These people are especially devastating to the elderly, as many of them are forced by age, circumstance, and the cultural conditions of a bygone era to operate on 'trust'. They are in fact, easy marks, for the typical investment scam artist.

This raises a catch 22 for scammers, and a hope for prosecution. The typical investment scammer can't help but focus on scamming the elderly, because it's so easy. But almost every state has specific laws against elderly abuse. And to be bluntly honest, AG's and DA's who might not otherwise prosecute a 'typical', complex, hard-to-understand and hard-to-explain-to-a-jury scam, will do so because of the publicity value afforded by a case involving that elderly abuse.

Investment scams decimate the elderly retirement funds, sending hundreds of thousands from a secure retirement and back into the work force, taking jobs from younger members of society.

And in addition, investment scams decimate the trust of both the elderly and the younger victims alike, creating a more distrustful society.

Bernie Bicoy



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January 20, 2005

Ms. Karen Patterson
California Department of Corporations
1515 "K" Street
Sacramento, CA 95814-4052

Special Agent Peter Norell, Supervisor
Federal Bureau of Investigations
901 West Civic Center Drive
Suite 300
Santa Ana, CA 92679

Dear Ms. Patterson and Special Agent Norell:

I hope you are well. Please find the following report and addendums, which contain what appears to be a financial crime in progress. I respectfully ask that you independently corroborate my findings and please do not hesitate to contact me if you need any further documentation.

BRIEF OVERVIEW OF COMPANY AND OPERATIONS

Enclosed you will find a detailed report on Par Three Financial, Inc., a Nevada Corporation¹ doing business in Las Vegas along with their current banking information and account number.² They currently have investors in at least five states³ totaling well over 100 people some of which are "retirees"⁴ and have already raised millions of dollars. The company promises 24% annual returns and supposedly generates these margins by "factoring" money for advance payday loan and check cashing centers located in several states across the country including: Utah, California, Florida, Nevada and Oklahoma.

The Fraud Discovery Institute was contacted by an investor who currently has \$200,000 invested in Par Three Financial, Inc. and asked us to "check out the company."⁵ That

¹ Par Three Financial, Inc. lists as their company address as: 101 Convention Center Drive, Suite 850, Las Vegas, Nevada, 89109. Curiously, there are three different phone numbers listed for the company (two on the official company web site: 877-533-6600 and 702-471-6933 and one listed on their D&B report: 702-284-5683).

² Please see Addendum 2.

³ According to interviews with both Donna Weldon and J.W. Long, the company vice president, investors are located in California, Washington, Nevada, Oregon and Utah.

⁴ Please see interview of J.W. Long later in this report.

⁵ The investor called on January 9, 2005 immediately after seeing me on a half hour show hosted by Paul Bloom, which aired on KUSI television.



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investor, for the purposes of this report, has asked to remain anonymous but has (as you know) already cooperated by phone with law enforcement and provided independent confirmation of the above.⁶

BRIEF OVERVIEW

Par Three Financial, Inc. uses five full-time individuals (known as "reps")⁷ to actively recruit new investors. These reps are overseen by J.W. (James) Long who is the Vice President of record for Par Three Financial, Inc. The company also attempts to attract new investment capital by encouraging current investors to invite their friends and relatives into the fund for a commission.⁸ When current investors refer their friends and family members they are given a flat \$200.00 referral fee for the first month a new prospect invests and ½ of one percent of the principle invested by the person referred for each month thereafter.

In addition to the reps and the referral bonuses, Par Three Financial, Inc. has placed "investors wanted" ads in newspapers to solicit new investors. The Fraud Discovery Institute has obtained "investors wanted" ads offering "ROI of 24% per year" strategically placed by Par Three Financial, Inc. in at least two newspapers that we know of: the San Francisco Chronicle and the Seattle Times.⁹ Further, Par Three Financial has placed online advertisements for investors on at least two prominent, online publications: Inetgiant and Usfreeads.com.¹⁰

According to public records including a Dunn and Bradstreet report, the company's CEO is long time attorney Michael L. Potter.¹¹ Mr. Potter was born in 1951 and before

⁶ Extensive phone conversation on January 18, 2005.

⁷ Two of these "reps" are Donna Weldon (whom I did talk to) and John MacKenzie whom I did not speak with directly but learned about him through conversations with Ms. Weldon and Mr. Long and from the online posting he made to advertise Par Three Financial, Inc. as an investment opportunity.

⁸ Please see Addendum 3, Par Three Financial's official monthly newsletter dated September 1, 2004.

⁹ These ads ran in the Seattle Times from 11/16/03 to 4/28/04 and, according to Ron (415-777-7777, ext. 3524) last ran in the San Francisco Chronicle from 04/25/2004 to 04/28/2004. At least one investor I spoke with, Bob Philpott in Washington, invested in Par Three Financial after seeing the ad in the paper. Please see Addendum 4 for the exact ads that were placed in these newspapers. These ads have also been forwarded to both Peter Del Greco and Ms. Patterson.

¹⁰ Please see addendum 5 where the actual ads placed online are copied or go to: www.inetgiant.com/default.asp?action=currentads&name=John%20MacKenzie&memid=173137 - 47k - SupplementalResult - [Cached](#). Please note that in the Inetgiant ad Mr. John MacKenzie is the listed contact on behalf of the company. For the Usfreeads site please go to www.usfreeads.com/nevada/175061-local.html - 11k - SupplementalResult - [Cached](#).

¹¹ Donald D. Merritt is also listed as an officer. Please see the attached public records in Addendum 6.



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opening Par Three Financial, Inc. in 1997 he was a practicing attorney for twenty years.¹² Through conversations with both investors and senior management of Par Three Financial, Inc. Mr. Potter rarely if ever deals directly with investors and according to Mr. Long relies on him to "run the day to day operation of the company."

SIX ISSUES THAT APPEAR TO MAKE THIS A FINANCIAL CRIME IN PROGRESS

1. Unregistered security/unlicensed broker dealer.

Par Three Financial, Inc., unlike any other investment opportunity that I have seen, proactively attacks the issue of whether or not their offering constitutes a security. Whether it is their password protected website¹³ or their "investor qualification" by application, or by coming right out and arguing that their offering is a "note" and therefore exempt from securities laws, the company gives the impression to the public that they are exempt from full financial disclosure to regulatory agencies.

The password protected website for Par Three Financial, Inc. makes the below argument to exempt their offering from being labeled a security; thus avoiding the need for full financial disclosure to regulators. They state:

"Under the Securities Act of 1933, this note is regulated under Section 3 of the Act. Paragraph (a) of Section 3 reads as follows:

Exempted Securities

Except as hereinafter expressly provided, the provisions of this title shall not apply to any of the following classes of securities:

3. Any NOTE, draft, bill of exchange or banker's acceptance which arises out of a current transaction or the proceeds of which have been or are to be used for current transactions and which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace or any renewal thereof the maturity of which is likewise limited;

The initial term of the Loan Agreement is nine (9) months. Therefore, the Company's Note, via Investor Accounts Receivable Purchase Note is considered an "Exempted Security".

The Fraud Discovery Institute has had no less than nine specific cases dealing with the question of "what constitutes a security" and although not a legal opinion, we submit the following five items for consideration:

¹² Admittedly this information was taken directly from the company's Dunn and Bradstreet report but is a primary source reference because, according to Dunn and Bradstreet, Mr. Potter personally provided the information contained in the report in March of 2004. We have included the company D&B report in Addendum 7.

¹³ Visit www.parthreefinancial.com, user name "Par3" and password "success". To download banking information, go to www.parthreefinancial.com/wire or to download a copy for the agreement all clients are given before investing go to www.parthreefinancial.com/agreements.



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- a. **First**, a promoter may call an offering anything they want (in this case a note) but that doesn't make it a note (nor does it exempt it from being a security). In fact a note can even still be a note AND a security. Par Three Financial, Inc. has structured this deal so that investors do not technically "invest" with them but rather "lend" them money (thus the term note and the hopeful avoidance of being labeled a security) which the company then gives to advance pay day loan and check cashing companies.
- b. **Second**, Par Three Financial, Inc. appears to fail the Howie test for what constitutes a security. Howie's three-prong test being: (1) a sum of money, (2) for profit, or (3) where the primary reliance for success is dependent on the efforts of the promoter. Since our client has no experience in the check cashing/advance payday loan industry (as he has already confirmed to the California Department of Corporations) nor does he have an expertise in factoring. I think the Par Three Financial, Inc. offering meets the Howie test and appears to be a security.
- c. **Third**, in *Reves v. Ernst & Young*, 494 US 56, 74 (1990) it would appear that hiding under the umbrella of "a note" would not necessarily exempt the offering from being a security.
- d. **Fourth**, and as to investor qualification through an online application and a password protected website which is normally and regularly done by the company to give the public impression that only "qualified investors" are sought and in limited number, the very fact that general solicitations were made to the public through newspaper advertising and online website advertising means that Par Three Financial, Inc. does not appear to qualify under any security exemptions. Moreover, the "qualifying of new investors" and backing away from a general solicitation to the public is a relatively new approach for the company and is confirmed in their official newsletter signed by J.W. Long where, in September of 2004, he writes:

"Next month we will be password protecting our website: www.parthreefinancial.com as we will only be working with our existing partners and their referrals. You will receive the password in our next News Letter for your own personal use and the use of your referrals."

Unfortunately, when talking about a general solicitation of a security, "once the toothpaste is out of the tube it is hard to put it back." The fact that the essential components of their former website, www.makeitwopercentamonth.com, are still retrievable, along with the investment opportunity through a simple Google search¹⁴, general solicitation still seems to readily apply.

¹⁴ Simply go to www.google.com and type in (in quotes) "Par Three Financial, Inc."



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- e. **Fifth.** the company's practice of paying commissions to unlicensed broker dealers¹⁵ to bring in new prospects appears to be a clear violation because it seems the company is utilizing unlicensed broker dealers to sell their security.

Finally (based on the above), on January 18, 2005, I called David Stauffer at the Oregon Department of Consumer Services (866-814-9710) and he checked the Central Registration Depository (CRD) national database and determined that Michael L. Potter and Donald D. Merritt (the two listed officers in a public search of Par Three Financial, Inc.) are not licensed broker dealers.¹⁶

On January 18, 2005 I also called Judy H. at the Securities Division of the State of Nevada (702-486-2440) and asked her if Par Three Financial, Inc. was blue skied in the state of Nevada and she confirmed that they were not. Additionally I had her check to see if Mr. Michael L. Potter or Mr. Donald D. Merritt were licensed to sell securities in the state of Nevada and they were not.

2. No lenders license.¹⁷

In addition to clearly stating on their official, password protected website that they "**lend money to check cashing stores**" the company is not a licensed lender in Nevada or California where they are located and claim to have check cashing store customers.¹⁸ On January 18, 2005, I spoke with Carol Pearce and Robert Silva from the Financial Institutions Division of Nevada located in Carson City (775-684-1833) and they confirmed that neither Par Three Financial, Inc. nor Michael L. Potter possess a license to do any kind of lending in the state of Nevada where the company is incorporated. Additionally on January 18, 2005, I spoke with Mary G. at the California Department of Corporations California Finance Lenders License Division (213-576-7690) and she also confirmed that Par Three Financial, Inc. does not have a license to lend money to anyone in California.

The company attempts to sidestep this lack of licensing (because of the usury implications of charging a check cashing/advance payday loan company 5-10% per

¹⁵ Please remember this is a well established practice of Par Three Financial confirmed in their own newsletters and confirmed by our client.

¹⁶ Michael L. Potter does have a CRD number (1315971) but he is not registered or licensed to sell securities.

¹⁷ A company must hold a lenders license in any state they do business. One only needs to listen to the barrage of mortgage broker radio commercials to know this to be the case.

¹⁸ Please see interviews with J.W. Long and Donna Weldon where both confirm check cashing store customers in the following states: Nevada, California, Oklahoma, Florida, Utah and, according to Mr. Long, 30 new stores in Texas.



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month in interest on loans without a lenders license)¹⁹ by stating on the question and answer section of their website the following:

"Isn't it 'usury' to earn or charge a rate of interest above 24%? As stated above, an investor, legally known as a "Factor" is charging the company, Par Three Financial in this case, a fee each month of 2% to allow the company to purchase additional inventory, "consumer checks" on their behalf. Yes, if it were an interest rate charged it would be an unlawful rate of return. This is why the agreement is an "Accounts Receivable Purchase Agreements," and not a "Loan Agreement".

In our opinion, this argument lacks credibility because factoring involves either the purchasing of a receivable at a discount with no recourse²⁰ (something that is pragmatically impossible for a check cashing company to do considering the rapidity in which checks clear, the volume of many checks in small amounts and the short term nature of a two week loan made in the advance pay loan side of the business)²¹ or using certain receivables as collateral to borrow money. The former requires no lending license because of the non-recourse nature of the transaction but the latter does require a lenders license.

And yet the Par Three Financial, Inc.'s website says on the one hand that it lends money to check cashing stores; but on the other hand, the same website says they do not lend money because of usury laws but instead utilizes accounts receivable purchase agreements. In their Accounts Receivable Purchase Note²² it explicitly says when describing (from their own words) the type of business they are engaged in that:

WHEREAS, Client (Par Three Financial, Inc.—*emphasis mine*) is engaged in the business of public / commercial retail lending, and sells and delivers product and/or provides services to Customers on a credit basis...

And finally, even in their "investment opportunities" ad placements in the Seattle Times and the San Francisco Chronicle the copy reads: "established lending company..." Well, which is it? These two contradictory views cannot both be true. The likelihood is that the company is concealing their lack of licensing by using phrases like "purchase agreement" instead of loan and they are not even consistent in that regard. There appears to be only one way to resolve these apparent contradictions. If the company in fact does have enough check cashing/advance pay

¹⁹ The company's official website explicitly states that they charge their check cashing/advance payday loan customers 5-10% per month. The exact language reads: "We make loans to the stores starting at \$25,000.00. In return we receive 5-10% a month in fee payments."

²⁰ The Fraud Discovery Institute has a specific expertise in the factoring business because of our work in uncovering MX Factors, a \$5 million dollar fraud out of Riverside, California.

²¹ See report from expert Don Coker points 4 and 5.

²² See Addendum 8.



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loan customers to justify the margins they are currently paying their investment pool²³ they are clearly lending them money without a license.

3. The business model of Par Three Financial is untenable.

The Fraud Discovery Institute retained Don Coker, an expert in both the banking and check cashing industry, who has been retained by the FDIC²⁴ and several other and agencies in the past. After reviewing Par Three Financial's official website and company newsletters, Mr. Coker concludes that:

"Despite having a high level of familiarity with the payday lending and check cashing businesses nationwide, I have never heard of this company or any company that purports to do business on this business model. Likewise, I have never heard of any check cashing company that uses a service even similar to this service purportedly offered by Par Three Financial, Inc., underscoring my opinion that this business model, as presented, would not work."

On January 11, 2005, I spoke to Burt Goldberg, the President of The International Factoring Association (805-544-8327). The IFA has over 200 member factoring companies and he told me that he has never heard of Par Three Financial, Inc. and that he was not aware of any factoring company who had check cashing/advance payday loan companies as clients.²⁵

Additionally, according to our research, the margins in the advance pay day loan and check cashing business can be upwards of 300 to 400% annually and therefore offering investors 24% a year return is mathematically plausible. This fact is not lost in interviews with Ms. Weldon, Mr. Long and even Mike Brisce²⁶ from Ace America's Cash Express who, although admitting he has never heard of factors doing

²³ After UCC-1 searches in five primary states Par Three Financial, Inc. claims to be doing business, we were unable to find any UCC-1 liens listing Par Three Financial as the secured party. Please see Addendum 9. Additionally none of the investors we talked to had ever spoken with a customer of Par Three Financial, Inc.

²⁴ Mr. Coker's report along with his credentials has been included in its entirety in Addendum 1 which immediately follows this report. Please note that in the report Mr. Coker qualifies his conclusions with the statement that he did not speak to anyone from the company but only reviewed their official web site in its entirety -which included the Accounts Receivable Purchase Note Agreement and a couple of company newsletters.

²⁵ In the interest of full disclosure, the fact that Mr. Goldberg had not heard of any factor being in the business of check cashing/advance pay day loans did not mean that he believed that it was impossible that a factor could be in that business but rather that he had not heard of a factor in that business nor had he heard of Par Three Financial, Inc.

²⁶ Mr. Brisce's phone number is 800-713-3338. Ace Cash Express is one of the industry leaders in the advance payday loan and check cashing business with hundreds of stores nationwide.



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business with check cashing companies nor has he ever heard of Par Three Financial, Inc. he did confirm that the margins in this industry are substantial.

However, if these returns were so prevalent in the check cashing and advanced payday loan industry then the need to pay Par Three Financial, Inc. between 8% and 10% per month²⁷ for working capital would be minimal at best, as the margins would quickly provide the necessary capital for ongoing operations without the need to borrow from Par Three Financial, Inc. Despite this, Mr. Long and Ms. Weldon boasted of retaining long-term check cashing/advance payday loan company clients who were "unable to qualify for bank financing" because they were "small ma and pa" run companies. Moreover, Mr. Long is currently establishing relationships with "30 new check cashing companies in Texas." Even if one concedes that any company can survive with a cost of capital pushing 5 to 10% per month, it would certainly be in their best interest, especially if the margins in the industry made this borrowing possible, that they would seek to minimize a long term relationship with Par Three Financial, Inc.

4. No apparent evidence of customers (sources and uses of cash test)

The Fraud Discovery Institute ran UCC-1 searches in the following states: Florida, Nevada, California, Utah and Oklahoma—all states that both Ms. Weldon and Mr. Long confirmed that Par Three Financial, Inc. had check cashing/advance payday loan customers.²⁸ We found no UCC-1 filings listing Par Three Financial, Inc. as the secured party.

However, I specifically questioned Mr. Long *two times* if the company filed "blanket UCC-1 liens on all their check cashing/advance payday loan customers to protect the principle invested and he said "yes." He also added that Par Three Financial, Inc. makes their customers sign agreements, which further protects prospective investors. When I interviewed investors (admittedly I did not interview *all* the people in the fund), no one I spoke to had ever been given the name of a single check cashing/advance payday loan company that Par Three Financial, Inc. was doing business with.

Please note that it is not the position of the Fraud Discovery Institute that Par Three Financial, Inc. cannot come up with some companies they may be doing business with but if they can I could not find any evidence of it in the public record nor does it

²⁷ Please see "about us" section of the password protected website which says Par Three Financial, Inc. receives "between 5% to 10% per month" from their check cashing/advance payday loan customers. However, in my final interview with Mr. J.W. Long on January 14, 2005 (he once again called me at the church), he says the fees received are closer to 8% to 10% per month.

²⁸ Please see the actual UCC-1 searches in Addendum 9.



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appear that they have enough customers to support the returns being received by over one hundred current investors.

The only way to conclusively prove whether or not Par Three Financial, Inc. has real advance payday loan/check cashing store customers and is therefore earning enough revenue to support the returns currently being paid to investors is to **subpoena their corporate banking information and obtain microfiche copies of the actual money deposited into their operating account. If the only money deposited is new investor money and not revenue from fees (interest) earned from their "customers" then fraud has most likely occurred.** We have included said banking information in addendum two. The Fraud Discovery Institute does not have such subpoena power but hopes to establish at least probable cause for the FBI, the SEC or the DOC to do so. This, however, is the only way to know for sure whether or not the customers exist.

Finally, there is some corroborating evidence for this "not enough customers to support the operation" theory as the 2003-year end revenue as reported to Dunn and Bradstreet from Mr. Michael Potter directly shows revenues at just below three million dollars (\$2,998,000). One would assume these revenues would be generated from money paid to Par Three Financial, Inc. from local check cashing/advance payday loan stores because their website indicated that is how they generate revenue. However, based on the few people we talked to (our client, Mr. Capouch and Mr. Bob Philpott) they cumulatively have invested almost three quarters of a million dollars in the fund and when you count the other investors it would appear the company is not generating enough revenue to support these 24% annual returns on the millions they have already raised.²⁹

5. **No CPA prepared Financial Statements (independent proof of profitability test)³⁰**

The only financial information investors are given by Par Three Financial, Inc. is what is available from Dunn and Bradstreet. Our client and others have been told that Par Three Financial, Inc. has excellent credit with Dunn and Bradstreet but investors are never given independently prepared financial statements. I asked Mr. Long about this and he said that the company is "private" and is not required to produce CPA prepared financial statements. "We just send checks" were his exact words referring to timely interest payments to investors. In the past nine FDI cases that ended up being unregistered securities offered by unlicensed broker dealers (and ultimately

²⁹ Again, this point should be viewed in light of historical data contained in the Dunn and Bradstreet report.

³⁰ The presence of CPA prepared financial statements does not of course guarantee authenticity as the ZZZZ Best fraud that I perpetrated proved; but the absence of financial statements is never a good sign.



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were nothing more than Ponzi schemes¹¹) each case had a common denominator: No apparent internal controls and no independent proof of profitability from an outside CPA.

6. **Acceptance of IRA money**

More now than ever before these types of investment opportunities are seeking qualified money—specifically IRA money. This was seen in TC Enterprises and Financial Advisory Consultants. My experience has been that when an investor is told that they can use their qualified IRA money (self directed IRA) to invest, it imputes credibility to the investment opportunity. The average person wrongly concludes that if a company can accept IRA money then the IRS has somehow performed due diligence on that company and intrinsically placed their stamp of approval on the investment. Moreover, because IRA money is more difficult to withdraw, if Par Three Financial, Inc. turns out to be an unregistered security with an untenable business model then, like the two companies mentioned above, qualified money has been used to impute credibility to the fund—a technique which is becoming common in these kinds of deals.

¹¹ For a detailed list of these case examples, please see our website at www.frauddiscovery.net.



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INTERVIEWS

The following are interview reports with investors, our client and Par Three Financial, Inc. senior management.

1. Bob Philpott

(360) 457-7426

I spoke to Mr. Philpott on January 10, 2005. He said he has been in the Par Three Financial, Inc. investment fund for well over a year. He found out about the fund from an "investor wanted" type ad in the Seattle Times. I asked Mr. Philpott how big the Par Three Financial, Inc. investment fund was and he did not know exactly but pointed out "in the millions."⁵² He said he talked to Donna Weldon no less than five times before ultimately deciding to invest. He has been consistently receiving his 24% annual returns paid "monthly by Fed Ex." Mr. Philpott has brought five new investors into the fund, all of who are currently receiving their monthly interest payments.

I asked him if he ever talked to a customer of Par Three Financial, Inc. (an advance payday/check cashing company *not* another investor) and he said he had not but that he had spoken to four payday loan/check cashing places in town and became comfortable with the deal. He told me he receives a monthly newsletter from the company. He believes Par Three Financial, Inc. has check-cashing customers in 37 states. He said that the fund has a stockbroker from "Edward Jones" who was also invested in Par Three Financial, Inc. and my impression of that statement was that Mr. Philpott was more comfortable about being invested in the company because of the stockbroker's involvement. He did not use his IRA money to invest. His understanding is that his investment in Par Three Financial, Inc. is secured by "receivables" owed to the advance payday/check cashing companies from their customers. He confirmed that he is receiving a half percent a month on the principle money invested by the people he referred to the fund. When I asked him about the corporate structure of Par Three Financial, Inc. he said that "Mr. James Long is whom Donna Weldon works for" but he works through Ms. Weldon.

2. Gary Capouch

Cell: 360-809-0673

Home: 360-683-5698

⁵² The term "invested" in Par Three Financial, Inc. technically refers to the money these investors "lent" to Par Three Financial, Inc. as discussed in point one "Unregistered Security/unlicensed broker dealer."



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On January 10, I spoke to Gary Capouch. After we spoke, Mr. Capouch faxed me a letter³³ and two newsletters issued by Par Three Financial, Inc.³⁴ He has been in the fund for six months and has been receiving his 2% monthly interest payments "by Fed Ex" on time. He has invested both his personal money and his retirement money into the fund and my impression of his total amount invested is over \$300,000. Mr. Capouch confirmed that it was his self directed IRA that was used specifically to invest in Par Three Financial, Inc. According to Mr. Capouch, Equity Trust in Ohio is the custodian. He has no idea how many people are invested in the fund but he did say "a broker from Merrill Lynch is invested with Par Three Financial, Inc."

Mr. Capouch has a banking background and just retired (July 1, 2004) from Wells Fargo after they merged with his long time employer Pacific Northwest Bank. He heard about the fund through Bob Philpott who was a long time client of the bank. Gary said he "checked out Par Three Financial, Inc. three to four months before investing." It is his understanding that the company has eighty advance payday loan and check cashing stores nationwide that they are currently doing business with. Based on his banking background, I spoke with Mr. Capouch on January 19th again just to ask him about the UCC-1 filings and whether or not Par Three Financial, Inc. filed UCC-1's on their check cashing clients and he did not remember if they did or did not asked that I call Donna Weldon for clarification.

3. Our Client

Because law enforcement already has all of our client's information and has interviewed him extensively, his name is being withheld for purposes of this report. He contacted me on Sunday, January 9, 2005 after watching a 30-minute television show on KUSI, a local San Diego television station hosted by Paul Bloom. I was a guest on this weekly show and according to our client I talked about the MX Factors factoring fraud while on the show. Immediately he called me after recognizing points of similarity between Par Three Financial, Inc. and MX Factors. He then provided me with the password to the Par Three Financial, Inc. website so I could access it and research his investment.

He also asked that I use his name as a referral to contact Ms. Weldon and Mr. Long so that they would be more inclined to give me information (thinking I was a potential investor) that, if necessary, could be turned over to law enforcement.³⁵

³³ Please see Addendum 10.

³⁴ Please see Addendum 3

³⁵ This methodology of posing as a potential investor was disclosed to law enforcement and the client was told in advance that if there was a reasonable certainty that a financial crime was being committed, he would agree to cooperate with law enforcement and that I would immediately turn over all documentation



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The client revealed to me that he has \$200,000 invested in Par Three Financial, Inc., \$10,000 of which is from his self directed IRA. He confirmed that he has been receiving his monthly interest payments by Fed Ex. He confirmed the commissions paid to those who bring new people into the fund. His understanding about how revenues are generated by Par Three Financial, Inc. is they have advance payday loan and check cashing stores in various states throughout the country whom they "factor" receivables for because the small "ma and pa" type stores cannot qualify for traditional bank financing. He has never spoken to one of these check cashing stores that are currently doing business with Par Three Financial, Inc.

4. **Donna Weldon**
 702-813-4836

I spoke to Donna Weldon on several occasions, the first being on January 10, 2005 and the last time was on January 14, 2005. She is one of the "five reps" who sells the Par Three Financial, Inc. investment opportunity and services those existing investment clients. She confirmed that there are no less than 100 investors in Par Three Financial, Inc. and that number is growing rapidly. I asked her who the principals of the company were and she said J.W. Long. I pushed the issue about Michael L. Potter and she confirmed that he was the "CEO" but that Mr. Long ran the day-to-day operations. She also confirmed that Mr. Potter was a lawyer.

Ms. Weldon worked in a travel agency before Mr. Long recruited her into the Par Three Financial, Inc. investment opportunity and she refers to that move from the travel agency to Par Three as the best thing that has ever happened to her. She has been working with the company for a "few years." She confirmed that customer investment capital is secured by "first liens" being placed on the check cashing companies receivables. I asked if this was by UCC-1's and she agreed. She also was quick to state that Par Three Financial, Inc. has been around since 1998 and that Dunn and Brad Street had given them a score of "80." When I asked her about the check cashing/advance payday loan side of the business she said that Par Three Financial, Inc. deals with "smaller, independent stores in Utah, Florida, Washington State, California and Nevada. She added that some of these companies have two or three locations. Ms. Weldon made it very clear that Mr. Long was a "busy man" and if I wanted to do business with Par Three Financial, Inc. I had to go through her. I agreed but asked to speak to Mr. Long "once or twice for due diligence reasons" before agreeing to "only go through her." Finally, I asked Ms. Weldon for the phone number of an investor in California

to law enforcement. The client responded by saying: "No problem because if the company is legitimate, law enforcement could do nothing to hurt the company."



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whom I could call. She confirmed that there were California investors in the fund but said that all client information (including their phone numbers and investment amount) are kept confidential as a company policy.

5. **Mr. J.W. (James) Long**

I first spoke to Mr. Long on January 11, 2005. He returned a message I left for him and contacted me at the church. In that conversation he confirmed Par Three Financial, Inc. had been in business since 1997. He confirmed that there were a lot of "retirees in the fund" as well as investors in at least five states including California. He mentioned that in addition to Donna Weldon there were four other "reps" that sold the investment opportunity to customers—one of who was John MacKenzie. He also confirmed that Michael L. Potter was the company CEO but that he "ran daily operations." I asked him how many people were in the fund and he said "easily over 100" and "millions of dollars." He said Par Three Financial, Inc. contracts with check cashing/advance payday loan stores and file UCC-1 liens on these customers to secure their investment. He added that we only deal with check cashing/advance payday loan stores whose owners have good credit. I asked him where these customers (stores) were located and he said California, Florida, Utah, Kansas, Oklahoma and Canada. He used the phrase "we loan money to check cashing stores nationwide."

On January 14, 2005 Mr. Long returned another one of my calls. I explained that I had a few follow up questions. I reaffirmed with him that Par Three Financial, Inc. files UCC-1 liens on check cashing/advance payday loan companies that they do business with and he said "yes." He also added that written agreements exist between the owners of these check cashing stores and Par Three Financial, Inc. which are accompanied by the personal guarantee of the store owner for the funds borrowed from Par Three Financial, Inc. to provide additional security for those invested in the fund. I asked him if the company issued any CPA prepared financial statements or had reports prepared for investors from outside auditors. He said they are a private company and do not have that requirement. "We just send checks" were his exact words. I asked him again where these check cashing/advance ay day loan companies were located and he said "California, Utah, Florida, Nevada, Oklahoma and 30 new stores in Texas." He went on to say in this conversation that Par Three Financial, Inc. charges between 8% and 10% each month to their check cashing/advance pay day loan clients. He said in this conversation that the total stores Par Three Financial is doing business with is "about 75 nationwide." He told me the minimum investment into the fund is \$10,000.

Based on the above (and our expert's report in Addendum One below), this appears to be a financial crime in progress. I may be incorrect, but it has all the symptoms of an



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unregistered security being offered by unlicensed broker dealer(s) across state lines with an untenable business model. I could find not find any customers and certainly not enough business to support the margins being paid to current investors. Additionally, the fund is targeting the elderly and IRA money and has no independent proof of profitability in that no CPA prepared financial statements are available.

Respectfully submitted,

Barry Minkow
Fraud Discovery Institute

Reviewed and supervised by:

Juan Lopez
Licensed Private Investigator #18903

Cc: Mr. Peter Delgreco, ESQ.
US Securities and Exchange Commission
5670 Wilshire Boulevard, Suite 1100
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ADDENDUM ONE

Expert Opinion

DON COKER

BANKING, MANAGEMENT & ECONOMIC CONSULTANT

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January 12, 2005

Mr. Barry Minkow
Fraud Discovery Institute
San Diego, CA

Re: Par Three Financial, Inc.

Dear Mr. Minkow:

At your request, I have reviewed the website of Par Three Financial, Inc., as well as an "Agreement" form online, and a Newsletter. Your question to me was if, in my opinion, this business model described by Par Three Financial, Inc., is a viable business.

My background and experience include 35 years' experience in banking and lending, and extensive consulting in these areas. In addition to working as a banker and corporate lender, I have worked as a banking regulator and for a commercial finance company that was heavily involved in factoring. I have been called upon several times to work as a consultant and expert witness in the Check Cashing and Payday Loan industries. As a banker and lender, I was the first person to recognize the record-breaking title insurance company fraud of J.R. McConnell in Houston, TX in the 1986-1989 timeframe. It has been my privilege to serve as an expert consultant to the FDIC and IRS nationwide on numerous occasions. Attorneys nationwide have called on me as an expert consultant in over 200 banking and finance cases, and I have testified 80 times. A full curriculum vitae is provided at the end of this report.

Based upon my review of the materials referred to *supra* and my experience in the banking, lending, and check cashing industries, there are numerous questionable items that have come to my attention:

1. Based upon my experience, it is unlikely that payday lenders and check cashers would use a so-called "factoring" service such as that allegedly offered by Par Three Financial, Inc.

Payday lenders and check cashers typically operate using their own funds, and I do not believe that any pay day lender or check casher would be interested in paying Par Three Financial, Inc., 5% - 10% per month for working capital. Due to the high fees charged by payday lenders and check cashers, they generate sufficient funds to take care of their cash flow needs.

2. In factoring, the "factor" is in a similar role as that of a lender except that the factor buys the contract and is paid by the customer. For example, a carpet company may sell on terms \$50,000 worth of carpet to a customer and sell that contract to a factor in order to earn immediate cash.

3. Factoring typically operates on a "discount" basis, and I see no discount mentioned in Par Three Financial, Inc.'s, Agreement. Rather Par Three Financial, Inc., pays a "fee" of 2% per month to the investor.

4. Par Three Financial, Inc.'s, "Agreement" reads as if Par Three Financial, Inc., is in the payday loan and check cashing business, whereas it appears that the actual situation is that Par Three Financial, Inc., purports to be an intermediary between payday lenders and check cashers and "investors" who "buy" checks from Par Three Financial, Inc. This entire arrangement is unclear from the website and Agreement documentation reviewed. Clearly, in order for Par Three Financial, Inc., to obtain checks to sell to investors, they would have to buy checks from payday lenders and check cashers. This opens up a plethora of questions, such as:

- A. Where are these checks physically held, and what controls are present?
- B. Since turnover of these checks is critical to the success of these businesses, how can these checks be transported from check cashing stores across the country to Par Three Financial, Inc.?
- C. If these checks are sitting at Par Three Financial, Inc., then how are they presented to a bank for collection at the proper time?
- D. Likewise, the frequent procedure at payday lenders is to roll the customer's debt over by having the customer give a new check to replace the original check; but this would be impossible if the original check was anywhere other than at the payday lender's store.
- E. What significance is there to a nine-month term cited in the Agreement when payday loan transactions generally have a life of only two weeks and check cashing transactions happen in one day?

5. Par Three Financial, Inc., states that it also provides funds for check cashers, but it is difficult to see how this could be a possibility for their factoring business since a check accepted by a check casher must be verified as a "good" check at the bank upon which the check is drawn, hopefully funds reserved by the bank to cover the check, and then the check must be deposited promptly. It is unclear how a check being cashed could be factored since it must be sent directly to a bank for deposit.

6. There is a paucity of details in these proposed transactions. For example, there is no mention of any collateral security safeguards that would insure that the checks were not sold more than once.

7. There is no mention of how checks "come and go" into and out of their collateral status during this nine-month period

8. It is curious to me that there is no mention on Par Three Financial, Inc.'s, website of how check cashers can apply to do business with them. Furthermore, an Internet search found no indication of Par Three Financial, Inc.'s, offering of factoring or financing services for check cashers.

9. Despite having a high level of familiarity with the payday lending and check cashing businesses nationwide, I have never heard of this company or any company that purports to do business on this business model.

10. Likewise, I have never heard of any check cashing company that uses a service even similar to this service purportedly offered by Par Three Financial, Inc., underscoring my opinion that this business model, as presented, would not work.

11. Par Three Financial, Inc.'s, Application states that a Social Security number is optional, but this would be required in order for a 1099 to be issued at year-end.

However, they could possibly obtain this number by some other more secure means.

Summary:

It appears to me that the business model of Par Three Financial, Inc., is seriously flawed, to the point that I do not see how such a company could possibly successfully operate. In my opinion, and as pointed out *supra*, there are many potential problems extant that would require further satisfactory explanation before this business could be viewed as feasible.

Best regards,

Don Coker

Disclaimer: My expressed opinions are based upon my review of the materials cited *supra*. I have not spoken to anyone at Par Three Financial, Inc. If there is additional explanatory material provided by Par Three Financial, Inc., then I reserve the right to review such explanatory material and amend my opinions, if necessary. All work is on a "best efforts" basis with no warranties.

EXPERT WITNESS CASES IN LAST FOUR YEARS

Travis v. SouthTrust Bank
FL - 2004

MVSI & Braunig v. Alamo Bank
TX - 2004

Gaddis v. Columbus Bank & Trust
GA - 2004

VECC v. Bank of Nova Scotia
US Virgin Islands - 2004

Barnum v. Chase Manhattan
FL - 2004

McLin v. Union Planters Bank
MS - 2004

Trustmark Bank v. Baria
MS - 2004

Terry v. Voicestream
AL - 2004

Dominguez v. Wachovia bank
FL - 2004

Albrecht and Raines v. Ford Motor Credit Co.
FL - 2004

Travelers St. Paul Insurance v. Citibank
FL - 2004

U.S. Air Force v. Ahmad al Halabi
CA/Guantanamo Bay, Cuba - 2004

Evans and Mills v. Cumberland Valley National Bank
KY - 2004

Saad v. Banco Industrial de Venezuela
FL - 2004

C. Thomas v. Americredit and Findlay Auto
AL - 2004

V. Thomas v. Americredit and Findlay Auto
AL – 2004

Sav-N-America v. SouthTrust Bank
MS – 2004

David v. Bank of Nova Scotia
US Virgin Islands – 2004

Hicks Engineering v. Southland Bank
AL - 2004

Provident Bank v. Bank One
OH/CA - 2003

Sansbury v. The Citizens Bank
SC - 2003

Ciccarone vs. Marchese Chevrolet
PA - 2003

Aaron v. American Consolidated Credit
AL - 2003

Graham vs. National City Bank
KY - 2003

Tice v. AmSouth
AL - 2003

Pointe Bank vs. Monteleone
FL – 2003

Hicks Engineering vs. Southland Bank
AL - 2003

Byrd vs. Walmart
WV – 2003

Tucker vs. Walmart
WV – 2003

Griffith vs. Mellon Bank
PA – 2003

State of New York vs. Dr. Richard Dombroff
NY – 2003

Cooley vs. Sterling Bank
AL - 2003

The King Edward Inn vs. Gervais
Halifax, Nova Scotia, Canada - 2003

The King Edward Inn vs. Lyn Gor Construction & Tracey Genge
Halifax, Nova Scotia, Canada - 2003

Walls Estate vs. Grand Housing
MS - 2003

Amitelli vs. Ward
OH - 2003

Agribank vs. Royster-Clark Agribusiness
FL and NY - 2002

Mason and Kuehn vs. Sherlock Homes
AL - 2002

Haik vs. Trustmark Bank
MS - 2002

Gragg vs. SouthTrust Bank
AL - 2002

E.M. Holding vs. County Bank
CO - 2002

Smith vs. AmSouth Bank
AL - 2002

vBank vs. Williams
PA - 2002

Stanley vs. Blount Parrish
AL - 2002

Bethea vs. First Horizon Mortgage
VA - 2001

Kawasaki vs. AmSouth Bank
LA - 2001

Kavajecz vs. Evanston Insurance
MI and CA - 2001

ADDENDUM ONE

Expert Opinion

DON COKER

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BUSINESS VALUATION
INVESTMENT BANKING SERVICES
INTANGIBLE ASSET VALUATION
EXPERT WITNESS CONSULTING

January 12, 2005

Mr. Barry Minkow
Fraud Discovery Institute
San Diego, CA

Re: Par Three Financial, Inc.

Dear Mr. Minkow:

At your request, I have reviewed the website of Par Three Financial, Inc., as well as an "Agreement" form online, and a Newsletter. Your question to me was if, in my opinion, this business model described by Par Three Financial, Inc., is a viable business.

My background and experience include 35 years' experience in banking and lending, and extensive consulting in these areas. In addition to working as a banker and corporate lender, I have worked as a banking regulator and for a commercial finance company that was heavily involved in factoring. I have been called upon several times to work as a consultant and expert witness in the Check Cashing and Payday Loan industries. As a banker and lender, I was the first person to recognize the record-breaking title insurance company fraud of J.R. McConnell in Houston, TX in the 1986-1989 timeframe. It has been my privilege to serve as an expert consultant to the FDIC and IRS nationwide on numerous occasions. Attorneys nationwide have called on me as an expert consultant in over 200 banking and finance cases, and I have testified 80 times. A full curriculum vitae is provided at the end of this report.

Based upon my review of the materials referred to *supra* and my experience in the banking, lending, and check cashing industries, there are numerous questionable items that have come to my attention:

1. Based upon my experience, it is unlikely that payday lenders and check cashers would use a so-called "factoring" service such as that allegedly offered by Par Three Financial, Inc.

Payday lenders and check cashers typically operate using their own funds, and I do not believe that any pay day lender or check casher would be interested in paying Par Three Financial, Inc., 5% - 10% per month for working capital. Due to the high fees charged by payday lenders and check cashers, they generate sufficient funds to take care of their cash flow needs.

2. In factoring, the "factor" is in a similar role as that of a lender except that the factor buys the contract and is paid by the customer. For example, a carpet company may sell on terms \$50,000 worth of carpet to a customer and sell that contract to a factor in order to earn immediate cash.

3. Factoring typically operates on a "discount" basis, and I see no discount mentioned in Par Three Financial, Inc.'s, Agreement. Rather Par Three Financial, Inc., pays a "fee" of 2% per month to the investor.

4. Par Three Financial, Inc.'s, "Agreement" reads as if Par Three Financial, Inc., is in the payday loan and check cashing business, whereas it appears that the actual situation is that Par Three Financial, Inc., purports to be an intermediary between payday lenders and check cashers and "investors" who "buy" checks from Par Three Financial, Inc. This entire arrangement is unclear from the website and Agreement documentation reviewed. Clearly, in order for Par Three Financial, Inc., to obtain checks to sell to investors, they would have to buy checks from payday lenders and check cashers. This opens up a plethora of questions, such as:

- A. Where are these checks physically held, and what controls are present?
- B. Since turnover of these checks is critical to the success of these businesses, how can these checks be transported from check cashing stores across the country to Par Three Financial, Inc.?
- C. If these checks are sitting at Par Three Financial, Inc., then how are they presented to a bank for collection at the proper time?
- D. Likewise, the frequent procedure at payday lenders is to roll the customer's debt over by having the customer give a new check to replace the original check; but this would be impossible if the original check was anywhere other than at the payday lender's store.
- E. What significance is there to a nine-month term cited in the Agreement when payday loan transactions generally have a life of only two weeks and check cashing transactions happen in one day?

5. Par Three Financial, Inc., states that it also provides funds for check cashers, but it is difficult to see how this could be a possibility for their factoring business since a check accepted by a check casher must be verified as a "good" check at the bank upon which the check is drawn, hopefully funds reserved by the bank to cover the check, and then the check must be deposited promptly. It is unclear how a check being cashed could be factored since it must be sent directly to a bank for deposit.

6. There is a paucity of details in these proposed transactions. For example, there is no mention of any collateral security safeguards that would insure that the checks were not sold more than once.

7. There is no mention of how checks "come and go" into and out of their collateral status during this nine-month period

8. It is curious to me that there is no mention on Par Three Financial, Inc.'s. website of how check cashers can apply to do business with them. Furthermore, an Internet search found no indication of Par Three Financial, Inc.'s. offering of factoring or financing services for check cashers.

9. Despite having a high level of familiarity with the payday lending and check cashing businesses nationwide, I have never heard of this company or any company that purports to do business on this business model.

10. Likewise, I have never heard of any check cashing company that uses a service even similar to this service purportedly offered by Par Three Financial, Inc., underscoring my opinion that this business model, as presented, would not work.

11. Par Three Financial, Inc.'s. Application states that a Social Security number is optional, but this would be required in order for a 1099 to be issued at year-end.

However, they could possibly obtain this number by some other more secure means.

Summary:

It appears to me that the business model of Par Three Financial, Inc., is seriously flawed, to the point that I do not see how such a company could possibly successfully operate. In my opinion, and as pointed out *supra*, there are many potential problems extant that would require further satisfactory explanation before this business could be viewed as feasible.

Best regards,

Don Coker

Disclaimer: My expressed opinions are based upon my review of the materials cited *supra*. I have not spoken to anyone at Par Three Financial, Inc. If there is additional explanatory material provided by Par Three Financial, Inc., then I reserve the right to review such explanatory material and amend my opinions, if necessary. All work is on a "best efforts" basis with no warranties.

EXPERT WITNESS CASES IN LAST FOUR YEARS

Travis v. SouthTrust Bank
FL - 2004

MVSI & Braunig v. Alamo Bank
TX - 2004

Gaddis v. Columbus Bank & Trust
GA - 2004

VECC v. Bank of Nova Scotia
US Virgin Islands - 2004

Barnum v. Chase Manhattan
FL - 2004

McLin v. Union Planters Bank
MS - 2004

Trustmark Bank v. Baria
MS - 2004

Terry v. Voicestream
AL - 2004

Dominguez v. Wachovia bank
FL - 2004

Albrecht and Raines v. Ford Motor Credit Co.
FL - 2004

Travelers St. Paul Insurance v. Citibank
FL – 2004

U.S. Air Force v. Ahmad al Halabi
CA/Guantanamo Bay, Cuba - 2004

Evans and Mills v. Cumberland Valley National Bank
KY – 2004

Saad v. Banco Industrial de Venezuela
FL - 2004

C. Thomas v. Americredit and Findlay Auto
AL – 2004

V. Thomas v. Americredit and Findlay Auto
AL – 2004

Sav-N-America v. SouthTrust Bank
MS – 2004

David v. Bank of Nova Scotia
US Virgin Islands – 2004

Hicks Engineering v. Southland Bank
AL - 2004

Provident Bank v. Bank One
OH/CA - 2003

Sansbury v. The Citizens Bank
SC - 2003

Ciccarone vs. Marchese Chevrolet
PA - 2003

Aaron v. American Consolidated Credit
AL - 2003

Graham vs. National City Bank
KY - 2003

Tice v. AmSouth
AL - 2003

Pointe Bank vs. Monteleone
FL – 2003

Hicks Engineering vs. Southland Bank
AL - 2003

Byrd vs. Walmart
WV – 2003

Tucker vs. Walmart
WV – 2003

Griffith vs. Mellon Bank
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State of New York vs. Dr. Richard Dombroff
NY – 2003

Cooley vs. Sterling Bank
AL - 2003

The King Edward Inn vs. Gervais
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The King Edward Inn vs. Lyn Gor Construction & Tracey Genge
Halifax, Nova Scotia, Canada – 2003

Walls Estate vs. Grand Housing
MS – 2003

Amitelli vs. Ward
OH – 2003

Agribank vs. Royster-Clark Agribusiness
FL and NY – 2002

Mason and Kuehn vs. Sherlock Homes
AL - 2002

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MS - 2002

Gragg vs. SouthTrust Bank
AL - 2002

E.M. Holding vs. County Bank
CO - 2002

Smith vs. AmSouth Bank
AL - 2002

vBank vs. Williams
PA - 2002

Stanley vs. Blount Parrish
AL - 2002

Bethea vs. First Horizon Mortgage
VA - 2001

Kawasaki vs. AmSouth Bank
LA - 2001

Kavajecz vs. Evanston Insurance
MI and CA - 2001

Bank One vs. Abroms
AL and CO - 2001

Budd vs. Deposit Guaranty Bank
MS - 2001

Situs Capital vs. Credit Suisse First Boston
TX - 2001

Sparks vs. Tharaldson
TX - 2001

US Bancorp vs. ACG Westpark Plaza
MT - 2001

SCD Ewa Development vs. Unity House
Hawai'i - 2001

Hudspeth vs. Bank of America
Texas - 2001

Smith vs. MS Insurance Co.
Mississippi - 2001

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Curriculum Vitae

DON COKER

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CONSULTANT**

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**CELLULAR:
(251) 716-3200**

**E-MAIL:
Bankexpert@cs.com**

REPRESENTATIVE CLIENT LIST

BANKING:

THE WORLD BANK
 BANK OF AMERICA
 BANK OF AMERICA - CANADA
 NATIONS BANK
 BANK ONE
 WACHOVIA/FIRST UNION BANK
 FIRSTAR/U.S. BANCORP
 SOUTHTRUST BANK
 WELLS FARGO MORTGAGE CORP.
 NATIONAL CITY (BANK) CORPORATION
 CREDIT SUISSE FIRST BOSTON MORTGAGE
 CAPITAL, LLC
 BANCO INDUSTRIAL DE VENEZUELA
 BANK OF OKLAHOMA
 SOUTHERN SECURITY BANK
 FIRST NATIONAL BANK OF PALM BEACH
 FIRST BANK, TALLAHASSEE, FL
 SUNBELT SAVINGS (NOW BANK OF AMERICA)
 SUNBELT FEDERAL BANK
 BANCOMER, S.A. (MEXICO)
 BLUEBONNET SAVINGS
 STANDARD PACIFIC SAVINGS BANK
 FIRST NATIONAL BANK OF BREWTON
 SOUTHEAST BANK OF MIAMI, FL
 BARNETT BANKS, INC.
 BANK OF THE SOUTHWEST
 PRIORITY BANCORP
 PANAMERICAN BANK
 KEYCORP
 IOWA TRUST
 BANCO BILBAO VIZCAYA ARGENTARIA
 (BILBAO AND MADRID, SPAIN)
 TANZANIA INSTITUTE OF BANKERS
 BANK OF TANZANIA (CENTRAL BANK)
 GOLDOME REALTY CREDIT CORP.
 WESTERN GULF SAVINGS & LOAN
 (NOW WELLS FARGO)
 AMERICAN SAVINGS & LOAN
 EDS - BEI GOLEMBE (BANKING)
 CONSULTANTS

GOVERNMENTAL:

FDIC
 RESOLUTION TRUST CORP.
 FEDERAL SAVINGS & LOAN INSUR. CORP.
 FEDERAL HOME LOAN MORTGAGE CORP.
 FARM CREDIT BANK
 U.S. DEPARTMENT OF EDUCATION,
 INSPECTOR GENERAL'S OFFICE
 INTERNAL REVENUE SERVICE,
 U.S. TREASURY DEPARTMENT
 STATE OF TEXAS, SAVINGS & LOAN
 DEPARTMENT (REGULATORS)
 13 MUNICIPALITIES IN CA AND CO
 CITY OF NEW ORLEANS, LOUISIANA
 FEDERAL RESERVE BANK OF ATLANTA
 TANZANIA REVENUE AUTHORITY
 U.S. AGENCY FOR INTERNATIONAL
 DEVELOPMENT (WASHINGTON, D.C.,
 AND KIEV, UKRAINE)
 U.S. AIR FORCE
 JUDGE ADVOCATE GENERAL'S CORPS
 - OFFICE OF SPECIAL
 INVESTIGATIONS

INSURANCE:

AIG
 CNA
 ST. PAUL INSURANCE COMPANY
 LIBERTY MUTUAL INSURANCE CO.
 ACADIA INSURANCE CO.
 ERIE INSURANCE GROUP
 TRAVELERS INSURANCE COMPANY
 MILITARY PREMIUM MANAGERS
 RELIANCE INSURANCE
 INTERNATIONAL TRANSPORT
 INTERMEDIARIES CLUB, LTD., UK
 NORTH RIVER INSURANCE CO.
 AMERICAN CASUALTY INSURANCE CO.
 NATIONAL UNION FIRE INSURANCE CO.
 CONTINENTAL CASUALTY INSURANCE CO.
 LLOYDS OF LONDON, UK
 CRUM & FORSTER MANAGERS
 XEROX FINANCIAL SERVICES
 THOMAS MILLER & COMPANY, UK

CORPORATE, CONTINUED...:

FORD MOTOR CREDIT CORP.	CHRISTIAN BAY SHIPPING COMPANY
CISCO SYSTEMS	CLIFF'S NOTES PUBLISHING
IBM – LOTUS DEVELOPMENT	DATAEASE INTERNATIONAL
KAWASAKI	ADDSTOR SOFTWARE
WALMART STORES	KILIMANJARO INTERNATIONAL
MCGLADREY & PULLEN, LLP (CPAs)	CHEMONICS INTERNATIONAL
INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE FOUNDATION (LONDON)	INSTITUTE FOR STOCK MARKET & MANAGEMENT (MOSCOW, RUSSIA)
NAPA AUTO PARTS	
DARRYL'S RESTAURANTS	
SEARS	
HERITAGE MOTELS, INC.	
BARRON'S EDUCATIONAL SOFTWARE	
CALCO AEROSPACE	
RUBY TUESDAY	
REMINGTON INVESTMENTS	
ALPHA SOFTWARE	
PHIVOS KARNAOS (LONDON & MOSCOW)	
NETWORK SOFTWARE ASSOCIATES	
COMPUTER ASSOCIATES	
GEORGE B. KAISER, FORBES 400 LIST	
SIMON & SCHUSTER PUBLISHING	
CREDITCARE CREDIT COUNSELING	
JANCIK CONCRETE SPECIALTIES	
KEYTRONICS	
CONCORD BOAT CORP.	
UKRAINIAN ACCOUNTING REFORM PROJECT (KIEV, UKRAINE)	
NBI SOFTWARE	
HOULIHAN'S RESTAURANTS	
AMERICAN CONSOLIDATED CREDIT	
ZAPADNOE KOLTZE (MOSCOW, RUSSIA)	
BENCHMARKING PARTNERS	
GARY THARALDSON, FORBES 400 LIST	
BOSTON CREDIT CORP.	
MORRISON'S CAFETERIAS	
BRODERBUND SOFTWARE	
PRENTICE HALL PUBLISHING	
SURGENCY	
AVTOVAZ (RUSSIA'S LARGEST CAR CO. – LADA AUTOMOBILES)	
AUTOVAZBANK (TAGLIATTI, RUSSIA)	
TIMEWORKS SOFTWARE	
WORDSTAR	
BUTTONWARE SOFTWARE (PC CALC+)	

PAST PROFESSIONAL MEMBERSHIPS

AMERICAN BANKERS ASSOCIATION
 AMERICAN INSTITUTE OF BANKING, CHAPTER OFFICER AND BANK CONSUL
 U.S. LEAGUE OF SAVINGS INSTITUTIONS
 INSTITUTE OF FINANCIAL EDUCATION, INSTRUCTOR
 MORTGAGE BANKERS ASSOCIATION
 TEXAS MORTGAGE BANKERS ASSOCIATION
 AMERICAN COUNCIL OF STATE SAVINGS SUPERVISORS
 AMERICAN BANKRUPTCY INSTITUTE - COMMITTEES: PUBLIC COMPANIES, REAL ESTATE,
 INTERNATIONAL, U.C.C., COMMERCIAL FRAUD TASKFORCE, HEALTHCARE.
 BOARD OF REALTORS
 NATIONAL ASSOCIATION OF HOMEBUILDERS
 INTERNATIONAL COUNCIL OF SHOPPING CENTERS
 HOUSTON (TX) CHAMBER OF COMMERCE, ECONOMIC DEVELOPMENT COMMITTEE, 9 YEARS

BOOKS, PUBLICATIONS & NEWS MEDIA

COMPLETE GUIDE TO INCOME PROPERTY FINANCING & LOAN PACKAGING, PRENTICE HALL, 1984.

SELF-MANAGEMENT: A GUIDE TO CAREER ADVANCEMENT AND DEVELOPMENT, WRITTEN UNDER CONTRACT FOR PRENTICE HALL, 1983.

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THE COMPLETE LOAN OFFICERS HANDBOOK, PRESENTLY WRITING.

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THE BALTIMORE SUN, INTERVIEWED FOR AN ARTICLE REGARDING CONSIDERATIONS FOR THE FUTURE OF ALLIED IRISH BANKS, PLC'S, AMERICAN SUBSIDIARY ALLFIRST BANK. MAY 30, 2002.

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SMALL BUSINESS TIMES, PROVIDED INFORMATION CONCERNING BUSINESS VALUATION ISSUES. SEPTEMBER 30, 2004.
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PATENT

ON JULY 8, 2002, THE UNITED STATES PATENT & TRADEMARK OFFICE REGISTERED A PROVISIONAL PATENT TO DON COKER FOR A BUSINESS PROCESS FOR IMPROVING THE PREVENTION AND DETECTION OF FINANCIAL FRAUD INVOLVING PERSONAL AND BUSINESS CHECKS, CASHIER'S CHECKS, POSTAL AND COMMERCIAL MONEY ORDERS, LETTERS OF CREDIT, BILLS OF EXCHANGE, DRAFTS, AND MANY OTHER TYPES OF FINANCIAL INSTRUMENTS. ON JULY 1, 2003, THE FORMAL PATENT APPLICATION WAS FILED. THIS PATENT IS BEING ACTIVELY MARKETED AT THIS TIME.

CIVIC ACTIVITIES

KATY SCHOOL DISTRICT (HOUSTON SUBURB), TRUSTEE, ELECTIVE POSITION.
 U.S. ARMY RESERVE, 1966-1968. OFFICER TRAINING, FT. BRAGG, NC; HONORABLE DISCHARGE.
 NOTTINGHAM COUNTRY CIVIC CLUB, OFFICER. 1,500 FAMILY NEIGHBORHOOD ASSOCIATION.
 SUNDAY SCHOOL TEACHER, USHER, HOST.

EDUCATION

COLLEGE:
 UNIVERSITY OF ALABAMA, BACHELOR OF ARTS DEGREE, 1968.

AWARDS AND ACTIVITIES: GOLD MERIT KEY AWARD FOR OUTSTANDING SERVICE TO THE UNIVERSITY, OUTSTANDING ARMY ROTC PLATOON LEADER AWARD, NUMEROUS PUBLICATIONS ACTIVITIES, APARTMENT MANAGER.
 UNIVERSITY OF ALABAMA, 1968; UNIVERSITY OF HOUSTON, 1973, POST-GRADUATE WORK IN FINANCE, ECONOMICS, VALUATION, REAL ESTATE, ACCOUNTING, AND LAW.
 SPRING HILL COLLEGE, MASTERS DEGREE-LEVEL LIBERAL ARTS AND ETHICS COURSEWORK.
 SOUTHERN METHODIST UNIVERSITY, COMMERCIAL REAL ESTATE FINANCE AND SECURITIES.
 SECONDARY:
 UNIVERSITY MILITARY SCHOOL, MOBILE, AL. 12 YEAR PREP DAY SCHOOL. GRADUATED 1963.
 AWARDS AND ACTIVITIES: OUTSTANDING STUDENT IN ENGLISH, MILITARY AWARDS, SCHOOL PUBLICATIONS.

OTHER PROFESSIONAL EDUCATION:

AMERICAN BANKERS ASSOCIATION - AMERICAN INSTITUTE OF BANKING: FINANCIAL STATEMENT ANALYSIS, CORPORATE FINANCE, BANK INVESTMENTS, PRINCIPLES OF BANK OPERATIONS, BANK MANAGEMENT, TRUSTS.
 NATIONAL INSTITUTE OF REAL ESTATE BOARDS, COMMERCIAL REAL ESTATE FINANCE.
 INTERNATIONAL COUNCIL OF SHOPPING CENTERS, SHOPPING CENTER FINANCE.
 NATIONAL HOSPITAL ASS'N., 1-WEEK WORKSHOP, HEALTHCARE ENTITY FINANCE & VALUATION.
 MORTGAGE BANKERS ASSOCIATION, TWO WORKSHOPS: MULTI-FAMILY AND SFR LENDING.
 FEDERAL HOME LOAN BANK OF DALLAS, TRAINING WORKSHOPS ON FINANCIAL INSTITUTION MANAGEMENT, LENDING, INVESTMENTS, OPERATIONS, ET. AL.
 TEXAS SAVINGS & LOAN DEPARTMENT, TRAINING WORKSHOPS ON FINANCIAL INSTITUTION MANAGEMENT, LENDING, INVESTMENTS, OPERATIONS, ET. AL.
 FEDERAL HOME LOAN MORTGAGE CORP., REAL ESTATE FINANCING WORKSHOP.
 FROST BANK, ADVANCED CREDIT ANALYSIS AND BUSINESS FINANCE.
 FIRST NATIONAL BANK OF MOBILE, AL (NOW AMSouth BANCORPORATION), FINANCIAL STATEMENT ANALYSIS, BUSINESS FINANCE, BANK INVESTMENTS, CREDIT CARD OPERATIONS, DEPOSIT OPERATIONS, BANK MANAGEMENT, TRUSTS.
 GIBRALTAR SAVINGS ASSOCIATION (NOW BANK OF AMERICA), COMMERCIAL REAL ESTATE FINANCE, VALUATION, JOINT-VENTURES.
 CITICORP, BUSINESS, CORPORATE AND REAL ESTATE FINANCE, VALUATION, DEPOSIT PRODUCTS, INVESTMENTS.
 SOUTHWEST BANCSHARES (NOW BANK ONE) BUSINESS FINANCE AND REAL ESTATE INVESTMENTS.
 COMMERCIAL CREDIT CORP. (NOW CITIGROUP), ONE-WEEK CORPORATE MARKETING CONFERENCE COVERING IN-DEPTH TRAINING IN ALL FINANCIAL PRODUCTS, PLUS 28 CDC LEARNING CENTER COURSES (EQUIVALENT TO 45 SEMESTER HOURS) IN BUSINESS AND ECONOMIC SUBJECTS.

PROFESSIONAL BACKGROUND SUMMARY

20+ YEARS EXPERIENCE IN MANAGEMENT AT BANKS, SAVINGS & LOANS, CREDIT COMPANIES, MORTGAGE BANKING COMPANIES, AND A GOVERNMENTAL FINANCIAL INSTITUTION REGULATORY AGENCY. POSITIONS HELD INCLUDE BOARD OF DIRECTORS MEMBER, EXECUTIVE VICE PRESIDENT, SENIOR VICE PRESIDENT, MANAGER OF LENDING, MANAGER OF MORTGAGE BANKING, REGULATORY SUPERVISORY AGENT (TANTAMOUNT TO CEO). COMMITTEE MEMBERSHIPS INCLUDED LOAN COMMITTEE, EXECUTIVE COMMITTEE, AUDIT COMMITTEE, AND PENSION PLAN TRUSTEE. SERVED AS A CORPORATE OFFICER OF VARIOUS FINANCIAL INSTITUTION SUBSIDIARIES. MANAGEMENT RESPONSIBILITIES INCLUDED AS MANY AS 300 PEOPLE IN 22 LOCATIONS NATIONWIDE IN TEN STATES AND \$1 BILLION IN GROSS ASSETS. DIRECTLY RESPONSIBLE FOR ORIGINATING OVER 36,000 LOANS OF ALL TYPES TOTALING OVER \$5 BILLION. REVIEWING OVER 25,000 REAL ESTATE APPRAISALS, AND REVIEWING WELL OVER 100,000 FINANCIAL STATEMENTS AND CREDIT REPORTS.

OTHER PROFESSIONAL ACTIVITIES

CONSULTANT ON VARIOUS ECONOMIC, VALUATION, REAL ESTATE, MARKETING, AND BANKING MATTERS FOR CLIENTS IN 44 STATES AND SEVERAL FOREIGN COUNTRIES.
 EXPERT WITNESS, FOR PLAINTIFF AND DEFENSE, LISTED IN THE ASSOCIATION OF TRIAL LAWYERS OF AMERICA'S AND THE DEFENSE RESEARCH INSTITUTE'S DATABASES OF RECOMMENDED CONSULTANTS, PLUS STATE AND LOCAL DATABASES IN AT LEAST 18 STATES AND CITIES.
 APPROVED REGISTERED U.S. GOVERNMENT CONTRACTOR.
 PHILLIPS COLLEGE, FORMER ADJUNCT PROFESSOR OF BUSINESS.
 INSTITUTE OF FINANCIAL EDUCATION, APPROVED INSTRUCTOR FOR THE EDUCATIONAL ARM OF THE U.S. LEAGUE OF SAVINGS INSTITUTIONS.
 PRENTICE HALL PUBLISHING, SIMON & SCHUSTER, PARAMOUNT COMMUNICATIONS, TECHNICAL EDITOR AND CONSULTANT ON BANKING AND REAL ESTATE SUBJECTS.
 HOLIDAY INN AND RODEWAY INNS, LENDER ADVISORY PANELS.
 NOVICK'S MONEY MARKET SEMINARS, PANELIST.
 NATIONAL DIRECTORY OF CORPORATE DISTRESS SPECIALISTS, APPROVED MGT. CONSULTANT.
 LICENSED SPORTS AGENT, APPROVED BY THE NCAA, MAJOR LEAGUE BASEBALL PLAYERS ASSOCIATION, AND THE AL ATHLETE AGENTS REGULATORY COMMISSION.
 AMERICAN ARBITRATION ASSOCIATION, APPROVED PROFESSIONAL COMMERCIAL ARBITRATOR.
 STATE OF TEXAS REAL ESTATE COMMISSION, APPROVED INSTRUCTOR AND WRITER OF COURSES.
 TEXAS REAL ESTATE BROKER'S LICENSE HELD FOR OVER TEN YEARS.

RECOGNITION IN BIOGRAPHICAL REFERENCE BOOKS

WHO'S WHO IN AMERICA, 52ND – 58TH EDS.
 WHO'S WHO IN THE WORLD, 12TH-16TH EDS.
 WHO'S WHO IN FINANCE & INDUSTRY, 26TH – 29TH AND 33RD EDS.
 WHO'S WHO IN MEDICINE & HEALTHCARE, 1ST – 4TH EDS.
 WHO'S WHO IN THE SOUTH & SOUTHWEST, 21ST – 31ST EDS.
 DIRECTORY OF DISTINGUISHED AMERICANS, 5TH ED.
 WHO'S WHO REGISTRY OF GLOBAL BUSINESS LEADERS, 1993 - 1994 ED.
 WHO'S WHO OF EMERGING LEADERS OF AMERICA, 3RD ED.
 WHO'S WHO REGISTRY OF BUSINESS LEADERS, 1994 ED.
 PERSONALITIES OF AMERICA, 5TH ED.; PERSONALITIES OF THE SOUTH, 14TH ED.

EMPLOYMENT HISTORY

1986 - PRESENT: BANKING, MANAGEMENT & ECONOMIC CONSULTANT, MOBILE, AL. CONSULTING ASSIGNMENTS COVERING A BROAD RANGE OF ACTIVITIES SUCH AS GOVERNMENTAL REGULATORY OVERSIGHT, INTERIM MANAGEMENT, BUSINESS & ASSET VALUATION, INTANGIBLE ASSET ISSUES, BANK INCOME TAX ISSUES, MERGER & ACQUISITION ASSISTANCE, DUE DILIGENCE, BUSINESS PLANS, MANAGEMENT ADVICE, WRITING & EDITING BUSINESS BOOKS, FEASIBILITY & MARKETING STUDIES & ADVICE, TRAINING & EDUCATIONAL ACTIVITIES; AND EXPERT WITNESS ENGAGEMENTS COVERING ALL AREAS OF BANKING, VALUATION, SECURITIES, ECONOMICS, TRUSTS & ESTATES, REAL ESTATE, INTERNATIONAL, MANAGEMENT, FINANCE, AND BUSINESS.

1985 - 1986: EXECUTIVE VICE PRESIDENT, MANAGER OF LENDING & MORTGAGE BANKING, BOARD OF DIRECTORS MEMBER, HOME SAVINGS (NOW CITIGROUP), HOUSTON, TX. NUMBER TWO EXECUTIVE. HEAVILY INVOLVED IN INVESTMENTS & DEPOSIT ACTIVITIES. OFFICER OF SEVERAL SUBSIDIARY COMPANIES. MEMBER OF LOAN COMMITTEE, EXECUTIVE COMMITTEE, AUDIT COMMITTEE, ET. AL. RESTRUCTURED THE MANAGEMENT RESPONSIBILITIES OF SEVERAL DEPARTMENTS, INCREASING PRODUCTION, EFFICIENCY, AND STAFF UTILIZATION. COMPLETED A \$54 MILLION COLLATERALIZED MORTGAGE OBLIGATION LOAN SECURITIZATION TRANSACTION THROUGH SALOMON BROS.

1984 - 1985: SENIOR VICE PRESIDENT, MANAGER OF LENDING, FIRST FEDERAL SAVINGS (NOW GUARANTY BANK), SAN ANTONIO, TX. MANAGER OF ALL LENDING & MORTGAGE BANKING. NUMBER TWO EXECUTIVE. HEAVILY INVOLVED IN INVESTMENTS & DEPOSIT ACTIVITIES. INCREASED LENDING ACTIVITIES 40% IN ONE YEAR WHILE REDUCING DELINQUENCIES, ALL WITHOUT ADDING TO HEADCOUNT.

1983 - 1984: SOUTHWEST REGIONAL MANAGER, FORD MOTOR CREDIT CORP., HOUSTON, TX. MANAGER OF COMMERCIAL REAL ESTATE FINANCE, AND SOME FINANCING WITH DEALERS.

1977 - 1983: REGIONAL MANAGER, COMMERCIAL CREDIT COMPANY (NOW CITIGROUP), HOUSTON, TX. MANAGER OF COMMERCIAL AND RESIDENTIAL REAL ESTATE FINANCING FOR THE SOUTHWEST, AND FORMALLY TRAINED & INVOLVED IN ALL FINANCIAL PRODUCTS OFFERED BY THE \$7 BILLION COMPANY. CHOSEN TO OPEN THE COMPANY'S FIRST COMMERCIAL REAL ESTATE LENDING FIELD OFFICE. RECEIVED THE COMPANY'S LARGEST BONUS EVER AWARDED, TWICE.

1974 - 1977: MANAGER OF COMMERCIAL REAL ESTATE LENDING AND MORTGAGE BANKING, SOUTHWEST BANCSHARES (NOW BANK ONE), HOUSTON, TX. ALSO INVOLVED IN THE ORIGINATION AND ADMINISTRATION OF CONSTRUCTION LOANS, DEPOSIT & INVESTMENT ACTIVITIES FOR LENDING CLIENTS INCLUDING WEALTHY FOREIGN NATIONALS, CORPORATE & PERSONAL LENDING, AND CREDIT CARD OPERATIONS. CREATED AND MANAGED A COMMERCIAL MORTGAGE BANKING ENTITY FOR A MULTI-BANK HOLDING COMPANY.

1973 - 1974: ASSISTANT REGIONAL MANAGER & ASSISTANT TREASURER, CITICORP REAL ESTATE, HOUSTON, TX. MORTGAGE BANKING AND CONSTRUCTION LENDING FOR CITIBANK, N.A. (NY), AND DEPOSIT & INVESTMENT ACTIVITIES FOR WEALTHY FOREIGN CLIENTS. HELPED

ESTABLISH A NEW OFFICE IN HOUSTON, INCLUDING STAFFING AND THE ESTABLISHMENT OF OPERATING POLICIES & PROCEDURES. PRIMARY TERRITORY COVERED SEVEN STATES, AND OPERATED NATIONWIDE & INTERNATIONALLY.

1972 - 1973: LOAN OFFICER & MANAGER OF LENDING DEPARTMENT, GIBRALTAR SAVINGS (NOW CITIGROUP), HOUSTON, TX. AT AGE 26, MANAGED THE DAY-TO-DAY OPERATIONS OF TEXAS' LARGEST S&L (55TH LARGEST IN THE U.S.). HANDLED CONSTRUCTION & SUBDIVISION DEVELOPMENT LOANS, JOINT-VENTURES, AND HIGH-VOLUME BUILDER ACCOUNTS. COMPLETED & IMPLEMENTED SEVERAL WORKFLOW EFFICIENCY IMPROVEMENT PROJECTS FOR VARIOUS DEPARTMENTS.

1968 - 1972: FIRST NATIONAL BANK OF MOBILE (NOW AMSouth), MOBILE, AL. MORTGAGE AND REAL ESTATE SPECIALIST IN THE TRUST DEPARTMENT. TRAINED AND WORKED IN ALL AREAS OF THE BANK INCLUDING CHECKING & SAVINGS, CREDIT, CORPORATE LENDING, PERSONAL LENDING, OPERATIONS, CHECK PROCESSING, AUDIT, INTERNATIONAL, INVESTMENTS, TRUSTS & ESTATES, CORPORATE PENSION PLAN MANAGEMENT, PORTFOLIO MANAGEMENT, STOCK TRANSFER, CORPORATE BOND TRUSTEE, BANK SECURITY, CREDIT CARD OPS, AND FUNDS TRANSFERS.

ADDENDUM TWO

ParThreeFinancial, Inc.

Giving Average Investors Superior Returns

BANKING INFORMATION
PAR THREE FINANCIAL, INC

support@parthreefinancial.com • www.ParThreeFinancial.com • Tel: 702.471.6933 • Fax: 702.471.6980 • Toll Free: 877.533.6600

BANK WIRING INSTRUCTIONS

Bank of America

5950 W. Sahara Ave.
Las Vegas, NV 89146

ABA Routing

026009593

Name of Account

Par Three Financial, Inc.

Account Number

004961842578

FROM: JOURNAL/PAT: 09/01/04

FAX: TEL: 1-800-633-5555

JAN 10 2005 02:11PM

ParThreeFinancial, Inc.**Giving Average Investors Superior Returns**

support@parthreefinancial.com • www.ParThreeFinancial.com • Tel: 702.471.6933 • Fax: 702.471.6983 • Toll Free: 877.633.6600

January 1, 2005

RE: MONTHLY NEWSLETTER

Dear Par Three Financial Partner:

Another year has ended and I believe we all feel that this year has just disappeared. Par Three Financial has had a banner year with revenue increases approaching 35%. We feel that 2005 will bring us increases of over 40% and you our financial partners have provided the capital to help us expand. So congratulate yourselves for seizing this opportunity to increase your current portfolio. Remember the website is now Password Protected so use the User Name and Password below to open the site. Give the site information to your referrals, so that they can review our program.

Website: www.parthreefinancial.comThe User Name is: Par3 and the Password is: success. (use a capital P in Par3)

The future continues to look very bright for our industry, as we provide the many needed services to those who prefer our "alternative" or "convenience" banking solution. I have included a letter from the Chairman of our Trade Association – Financial Service Centers of America or FISCA. You will probably see articles in the newspapers referencing this organization and our industry in general. I hope that this message from Gary Daehls will shed more light on our ever-expanding industry.



**As always we appreciate your Trust and
Confidence in Par Three Financial.
Happy NEW YEAR from all of us!**

Thank you so much for your referrals and we look forward to an exciting and rewarding future in 2005 and beyond.

Sincerely,
PAR THREE FINANCIAL, INC.

J.W. Long
J.W. Long
Vice-President

JWL:sk

Par Three Financial, Inc. • 101 Convention Center Drive, Suite 850 • Las Vegas, NV 89109

FROM: JAMES W. LONG

DATE: 09/01/2004

TO: JAMES W. LONG

ParThreeFinancial, Inc.

Giving Average Investors Superior Returns

support@parthreefinancial.com • www.parthreefinancial.com • Tel: 702.471.8100 • Fax: 702.471.8000 • Toll Free: 877.855.6666

September 1, 2004

RE: MONTHLY NEWSLETTER

Dear Par Three Financial Partner:

As we enter the month of September 2004 and the end of the summer, we have seen a significant jump in our requests for new or additional funds from our contracted stores. While this has been very exciting, our need for immediate funds from our financial partners is starting to decrease at this time. Many of you have indicated you are planning to increase your participation with Par Three Financial. We would request at this moment, that you contact your representative before sending in any additional funds. When we need it, then we will accept it; until then, you will be placed on a waiting list on a first come first serve basis. We will allow those who have embraced our Referral Program to participate as more funds are needed.

Next month we will be password protecting our website: www.parthreefinancial.com as we will only be working with our existing partners and their referrals. You will receive the password in our next News Letter for your own personal use and the use of your referrals.

Again, we can not thank you enough for your participation in the Par Three Financial program. Many of you have taken advantage of the **Par Three Referral Program** opportunity. For those of you, who haven't, please review this exciting and financially rewarding program. When you refer someone to our program, who opens a minimum \$10K account, you will receive a \$200 cash referral fee and 4% per month (6% per annum) of the total account balance of each referral for the duration of their participation in our program.

Because of your history with us, you are our best source for referrals: your strong efforts have benefited all parties concerned, so keep up the good work!

Thank you so much for your referrals and we look forward to an exciting and rewarding future.

We appreciate the trust and confidence you have placed in Par Three Financial, Inc.

Sincerely,

PAR THREE FINANCIAL, INC.



J.W. Long
Vice-President

JWL:sk

Par Three Financial, Inc. • 101 Convention Center Drive, Suite 850 • Las Vegas, NV 89109

ADDENDUM FOUR

NEWSPAPER ADS

San Francisco Chronicle
a Hearst Newspaper

The San Francisco Chronicle
901 Mission Street
San Francisco, CA 94103

Emailed Completion Notification

To: PAR THREE FINANCIAL
Company:
Fax #:

From: LEVY, RONALD
Customer Sales Representative

Phone:
Toll Free: 1-866-732-4766
Fax:

San Francisco Chronicle, Classified Dept., 901 Mission St., San Francisco, CA
94103

24% PER YEAR ROI
Est. lending co. paying
2%/mo. on secured inv.
\$10K min. investment
Call 1-877-533-6600

Barry Minkow

From: Barry Minkow [minkow@integrity.com]
Sent: Wednesday, January 12, 2005 3:41 PM
To: Minkow
Subject: Ad copy

-----Original Message-----

From: Chuck Hood [mailto:chood@seattletimes.com]
Sent: Tuesday, January 11, 2005 8:39 AM
To: minkow@integrity.com
Subject: Ad copy

This is what ran 11/16/03 to 4/28/04.

<p>Advanced Lending -</p> <p>24% PER YEAR ROI</p> <p>Established Lending company paying 2%/mo return on secured inv. \$10K Minimum, ■ Call 877-533-6600 ■</p>
--

Chuck F. Hood
Seattle Times -representing the Seattle Post Intelligencer
Classified Customer Sales
p: 206-652-6517 | f: 206-493-0866
e: chood@seattletimes.com
w: www.nwclassifieds.com

1/20/2005

ADDENDUM FIVE

ON-LINE ADS

InetGiant.com
offers Free
Classifieds
Advertising.

All free classified ads are posted instantly! No waiting for approval. No confusing or time consuming sign up process. Just register and select your personal username and password, then login and go from there. You can edit your free classified ad when ever you feel. Choose from a range of extra optional features: Featured Ads, Bold Titling, Premiere Ad, Option to add an icon with Classified Ad, and Option to upload your own image or photo with your free Classified Ad.

VIEW ALL CLASSIFIEDS POSTED BY John MacKenzie

Classifieds 1 - 11 of 11

[Home](#) > [Personals](#) > [Miscellaneous Personal Services](#) >

[24% Return on Your Investment](#) [1]

Viewed Today : 1 | Total Views : 1 | Expires on :
3/31/2004



Visit **Par Three Financial, Inc.** at www.parthreefinancial.com,
or my secondary website at www.angelfi... [more](#)

[Home](#) > [Personals](#) > [Personal Growth&Help](#) >

[24% Return on Your Investment](#) [1]

Viewed Today : 1 | Total Views : 3 | Expires on :
3/31/2004



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or my secondary website at www.angelfi... [more](#)

[Home](#) > [Personals](#) > [Personal Services](#) >

24% Return on Your Investement !!!

Viewed Today : 1 | Total Views : 2 | Expires on :
3/31/2004



Visit **Par Three Financial, Inc.** at www.parthreefinancial.com,
or my secondary website at www.angelfi... more

[Home](#) > [Financial/Money](#) > [Venture Capital](#) >

24% Return on Your Investement !!!

Viewed Today : 2 | Total Views : 6 | Expires on :
3/31/2004



Visit **Par Three Financial, Inc.** at www.parthreefinancial.com,
or my secondary website at www.angelfi... more

[Home](#) > [Financial/Money](#) > [Money to Lend](#) >

24% Return on Your Investement !!!

Viewed Today : 1 | Total Views : 4 | Expires on :
3/31/2004



Visit **Par Three Financial, Inc.** at www.parthreefinancial.com,
or my secondary website at www.angelfi... more

[Home](#) > [Financial/Money](#) > [Mortgage Services](#) >

24% Return on Your Investement !!!

Viewed Today : 1 | Total Views : 1 | Expires on :
3/31/2004



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[Home](#) > [Business Services](#) > [Business & Professional Srves](#) >

24% Return on Your Investement !!!

Viewed Today : 1 | Total Views : 1 | Expires on :
3/31/2004



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or my secondary website at www.angelfi... more

[Home](#) > [Business Opportunities](#) > [Partnerships & Investments](#) >

[24% Return on Your Investment !!!](#)

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3/31/2004



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[Home](#) > [Business Opportunities](#) > [Investors Wanted](#) >

[24% Return on Your Investment !!!](#)

Viewed Today : 1 | Total Views : 4 | Expires on :
3/31/2004



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or my secondary website at www.angelfi... [more](#)

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[24% Return on Your Investment !!!](#)

Viewed Today : 1 | Total Views : 1 | Expires on :
3/31/2004



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[Home](#) > [Business Opportunities](#) > [Money Making Opportunities](#)
>

[24% Return on Your Investement !!!](#)

Viewed Today : 0 | Total Views : 0 | Expires on :
3/31/2004



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24% Return on Your Investement !!!

Classifieds Business Opportunities Financial viewing ad

Ad ID#:	175061	Ad Views:	5	More like this
Seller ID#:	97436	Expires:	22 March 2004	Spotted on Usenet
Price:	Unspecified	Seller Area:	Nevada	Reply to ad

Visit **Par Three Financial, Inc.** at [w w w parthreefinancial com](http://www.parthreefinancial.com), or my secondary website at w w w angelfire com/nv2/par3 for more information about making your money work for you! minimum 2% per month or 24% per year

USFreeads

ADDENDUM SIX



PUBLIC RECORDS

<http://www.parthreefinancial.com/members/contact.htm>

Par3
success
Michael Potter
James W Long
florida, ca nevada, utah UCC
nexis on company and potter and long

Electronic Receipt – Thank You

Account Number:	*****
Order Number:	D71UBEK3BAJN8PMCNL3JWGP614
Authorization Number:	540637


Date & Time:	1/13/2005 3:29:37 AM
Credit Card Type:	Visa
Expiration Date:	2/06
Product:	LNCCPeopleNews

Cost:	\$3.00
Sales / Usage Tax:	\$0.00
Total Cost:	\$3.00

Electronic Receipt – Thank You


Account Number:	*****
Order Number:	E1PGQJFNUSBM8KD00WBXP03UC6
Authorization Number:	538670

Cost: \$1.00
 Sales / Usage Tax: \$0.00
 Total Cost: \$1.00

Electronic Receipt - Thank You 
 Account Number: ****
 Order Number: W0B3DJDM1EPL9NL9847AT0VRL3
 Authorization Number: 418568

Date & Time: 1/13/2005 3:06:09 AM
 Credit Card Type: Visa
 Expiration Date: 2/06
 Product: LNCCUCCFilings

Cost: \$1.00
 Sales / Usage Tax: \$0.00
 Total Cost: \$1.00

#, Electronic Receipt - Thank You, 
 , Account Number:, ****
 Order Number:, , 937DL1GT9E959KG4M39EKASQ46
 Authorization Number:, , 399393

Date & Time:, , 1/13/2005 1:47:31 AM
 Credit Card Type:, , Visa
 Expiration Date:, , 2/06
 Product:, , LNCCGeneralNews

Cost:, , \$3.00
 Sales / Usage Tax:, , \$0.00
 Total Cost:, , \$3.00

Account Number: **** Order Number: #HGTB6P1S71E9HATXDMNH 0419
 Authorization Number: 300076

Date & Time: 1/13/2005 1:46:18 AM Credit Card Type: Visa Expiration Date: 2/06 Product: LNCCGeneralNews

Cost: \$3.00 Sales / Usage Tax: \$0.00 Total Cost: \$3.00

Type: Corporation **File Number:** C29483-1998 **State:** NEVADA **Incorporated On:** December 17, 1998 **Status:** Current list of officers on file **Corp Type:** Regular **Resident Agent:** NEVADA CORPORATE HEADQUARTERS INC (Accepted) **Address:** 101 CONVENTION CENTER DR #700 LAS VEGAS NV89109- **President:** DONALD D MERRITT **Address:** PO BOX 27740 LAS VEGAS NV89126- **Secretary:** DONALD D MERRITT **Address:** PO BOX 27740 LAS VEGAS NV89126- **Treasurer:** DONALD D MERRITT **Address:** PO BOX 27740 LAS VEGAS NV89126-

Record Type: RESIDENTIAL SOURCE TWO

Name: MERRITT DONALD D
Added: 09/30/2004
Status: Current

Address: 5400 N CARSON ST
CARSON CITY, NV 89703
County: CARSON CITY

Phone: (775) 885-1XXX

Database: MERLIN CROSS-DIRECTORY

Data Through: 11/12/2004

Record Type: BUSINESS

Business: PAR THREE FINANCIAL INC

SIC: 626203 - FINANCIAL ADVISORY SERVICES

Address: 101 CONVENTION CENTER DR
LAS VEGAS, NV 89109
County: CLARK

Phone: (702) 471-6933

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Experian Business Reports

Name: PAR THREE FINANCIAL INC

Address: 101 CONVENTION CENTER DR STE 7
LAS VEGAS, NV 89109

Telephone: 702-284-5683

Experian File Number: Y19691524

***** TRADE *****

***** TRADE PAYMENT EXPERIENCES *****

(TRADE LINES WITH AN '*' AFTER DATE ARE NEWLY REPORTED)

BUSINESS CATEGORY	DATE REPTD	LAST SALE	RECENT	ACCOUNT STATUS					
			HIGH CREDIT \$	BALANCE \$	-DAYS PAST DUE- 1- 31- 61- CUR 30 60 90 91+				
AIR TRANS	10/31/2004		400						
Payment Terms: NET 30									
AIR TRANS	10/29/2004								
Payment Terms: NET 30									
Comment: CUST 1 YR									
+TELECOM	11/8/2004		200	200	100%				
Payment Terms: NET 30									

Footnotes:

+ IN FIRST COLUMN INDICATES COMPANY IS PAYING FASTER THAN THE INDUSTRY NORM;
 - IN FIRST COLUMN INDICATES COMPANY IS PAYING SLOWER THAN THE INDUSTRY NORM;
 = IN FIRST COLUMN INDICATES THE COMPANY PAYS THE SAME AS THE INDUSTRY NORM.
 <> SIGNS INDICATE TRUE HIGH CREDIT OR BALANCE IS < OR > AMOUNT SHOWN

***** TRADE PAYMENT TOTALS *****

	RECENT	ACCOUNT STATUS				
	HIGH CREDIT \$	BALANCE \$	-DAYS PAST DUE- 1- 31- 61- CUR 30 60 90 91+			
CONTINUOUSLY REPORTED: 3	700	200	100%			
TRADE LINE TOTALS: 4	700	200	100%			
HIGH CREDIT MEDIAN: 700						

***** PAYMENT TRENDS *****

(BASED ON CONTINUOUSLY REPORTED TRADE LINES)

	BUSINESS	BALANCE	-DAYS PAST DUE-					
			1-		31-		61-	
			CUR	30	60	90	91+	
AS OF 11/04:	N/A	200	100					
10/04:	N/A	100	100					
09/04:	N/A	200	100%					
08/04:	N/A	200	100					
07/04:	N/A	200	100%					
06/04:	N/A	0						

***** PAYMENT HISTORY - QUARTERLY AVERAGES *****

	BALANCE	-DAYS PAST DUE-					
		1-		31-		61-	
		CUR	30	60	90	91+	
3RD-Q-04:	N/A	200	100				
2ND-Q-04:	N/A	0					
1ST-Q-04:	N/A	0					
4TH-Q-03:	N/A	0					
3RD-Q-03:	N/A	0					

***** INQUIRIES *****

SIC	Description	Date		# Inquiries 8 months prior to report date								
		1	1	2	3	4	5	6	7	8	9	
2590	FINANCE	12/04						1				
	TOTAL	12/04						1				

Experian Extract Date: 12/6/2004

STATUS	DATE FILED	EXPIRES	FILINGS COMPLETED THRU	SUMMARY FOR FILING
LAPSED	10/01/1997	10/01/2002	01/06/2005	970000221571

Events Filed	0
--------------	---

SECURED PARTIES	Current Secured Parties
NAME & ADDRESS	
COMPASS BANK	
76 S LAURA ST JACKSONVILLE FL 32202	

WORLD >	
DEBTOR PARTIES	Current Debtor Parties
NAME & ADDRESS	
PAR THREE INC	
4121 SHOAL CREEK LN EAST JACKSONVILLE FL 32225	
PRICE CHARLES B	
920 ORIENTAL GARDENS RD JACKSONVILLE FL 32207	

Copyright 1997 News & Record (Greensboro, NC)
News & Record (Greensboro, NC)

June 22, 1997, Sunday, ALL EDITIONS

SECTION: BUSINESS, Pg. E5

LENGTH: 930 words

HEADLINE: INCORPORATIONS

BODY:

The State Corporation Commission has issued these businesses charters between April 1, 1997, and April 30, 1997. In parenthesis the company's registered agent:

GUILFORD COUNTY

Browns Summit. Millennium Management LLC (M. Kenneth Doss); Parkwood Group Inc. (Alfred J. Colanero);

Gibsonville. Inventive Internet Technologies Inc. (Scott Mulder);

Greensboro: A Plus Lawn Inc. (Hunter Wang); A.B.&J. Service Providers Inc. (James F. Joyce); A.H.M.A. Ltd. (Angela L. Hunt); Aaron Andersen Web Professionals Inc. (Matthew G. Milunic); Academy of Spoiled Babies Inc. (Jacqueline Casterlow);

Administrative Support Network Inc. (Cheryl R. Humphries); Affordable Senior Kare Inc. (Kenneth R. Jacobson); A Healthy Start Inc. (Manlin M. Chee); Airborne Metalworks Inc. (Dave Gordon); Ala Carte Accents For the Home Inc. (Gary G. Ash); American Metal Supply Inc. (David K. Richardson); American Unified Mortgage Inc. (N.C. Search Inc.); Arborgate Inc. (Larry Dail); B G R & R Inc. (Woody Willard Wolfe); B&J Billards/Lounge Inc. (Kendall Brumby); Barbara C. Hild & Associates Inc. (Barbara Clark Hild); Bay Point L.L.C. (Richard M. Greene); Blue Ridge Remodeling Heating & Air Conditioning Inc. (Tammy Jo Bryant); Bluethenthal Family Fund (Arthur Bluethenthal); Boyd Photography Inc. (Larry R. Boyd); Brute Cleaning Service Inc (John W. Quick); Cabin Creek Consortium LLC (William L. Tankersley III); Carolina Tennis Academy Inc. (Oscar E. Blacutt); Carr-Powell Properties LLC (Vernon B. Powell); Cartell Inc. (April Lynn Lattig); Certified Lock Inc. (Thomas Alan Jeffries); Chatham Acquisition Inc. (Charles T. Hagan III); Colonial Home Improvemnt Co. Inc. (Charles Livingston Harris); Computer Net of Raleigh Inc. (Tim Sessoms); The Computer Resource Group Inc. (Shannon B. Hill); Concrete Construction Co. Inc. (Leo Davidson); Con-Equip of the Carolinas Inc. (William Guy Roof); Cornerstone Village Properties LLC (Steven D. Bell); Corporate Consulting Inc. (Joseph V. Green); Crane Point LLC (John R. Barlow); Crown Battleground LLC (Royce O. Reynolds); Crown Used Car Mall LLC (Royce O. Reynolds); Currahee Disease Mangement Services Inc. (John H. Small); Dale Wood Designs Inc. (Nancy J. Adkins); The Dan Ottaviano Foundation Inc. (Bradley L. Jacobs); Darco Enterprises Inc. (Darwin A. Nelson); DBM Group Inc. (Donald R. Vaughan); DLS Clemmons LLC (Desmond G. Sheridan); DLS Millwood LLC (Desmond G. Sheridan); Dream Cars Ltd. (Terrell Raynor); Doug York Construction Inc. (N.C. Search Inc.); E.J. Oddono Jr., M.D., P.A. (Ernest John Oddono Jr.); Earth Shapers Inc. (John D. Amos); East White Oak Missionary Baptist Church Inc. (Benjamin W. Mittman Sr.); Efird - Gwinn Architects P.A. (Gregory S. Williams); Eleite Technologies Inc. (Paul M. Leite); Elliott, Nelson Inc. (Charlie Elliott); Evolution Marketing Inc. (Daniel Forlano); Eye Center Pharmacy LLC (Desmond G. Sheridan); F & F Foods Inc. (H. Vaughn Ramsey); First Federal Home Equity Inc. (Angela A. Williamson); First Mission Enterprises Inc. (James F. Hammond); Foundation Khadimou Rassoul (Abdoulaye Diop); Ganim Investments Inc. (Paul M. Stutts); Geeks Inc. (J. Christopher Hughes); GI Associates Inc. (Small Business Solutions International); Glenwood Water and Sewer Co. L.L.C. (Howard L. Borum); God's Place of Worship and Deliverance Inc. (Charles A. Morgan Sr.); Guilford Place LLC (James L. Merritt); H&S Paint Co. LLC (Martha J. Snead); Hargett's Telephone Contractors Inc. (Thomas Sonricker); Hayes Memorial United Holy Church (Louise King); Heartland Apparel Inc. (W.B. Rodman Davis); Hit the Zone Inc. (Patricia A. McCall); Hood Construction Co. Inc. (Robin Hood); Hounds' Hunt LLC (Harry S. Falk); Huckabee Trucking Co. Inc (Sandra M. Lumley); HVM/Clubhaven LLC (William L. Tankersley III); Hummel Family Foundation Inc. (Bradley L. Jacobs); Industrial Devices Inc. (Glen Moore); Innovative Answers Inc. (John Bilhardt); I3S Funding I L.L.C. (Russell R. Myers); J. Todd Brown Associates Inc. (J. Todd Brown); Jackie Newkirk Insurance Agency Inc. (Jackie Newkirk Morehead); James R. Pass Inc. (James R. Pass); Jane Bryant Lawson, CPA, PA (Jane Bryant Lawson); JBC of North Carolina LLC (Keith A. Wood); JDC Manufacturing I.L.C. (W.B. Rodman Davis); KRB Properties L.L.C. (Kenneth R. Brooks); Lawndale Drive In Inc. (Timothy D. Duhan); Lindmark I.L.C. (James F. Marshall); Loftis

Inc. (Michael D. Loftis); Lothakoun Enterprises Inc. (Singthong Lotakoon); Ly & Tran Investment Inc. (Lim U. Tran); M & E of Rockingham County Inc. (Charles E. Melvin Jr.); Majestic Oriental Imports Inc. (N.C. Serach Inc.); Materials Handling Enterprises Inc. (Kevin Galvin); Medibeg USA Inc. (Charles T. Hagan III); Medical Reimbursement Systems Inc. (Cheryl R. Humphries); Michael Aviation Inc. (Dave Gordon); Micron Video International Inc. (Richard A. Matthews); Missions for Christ (Apostolic Faith) (Robin Ellis); National Alliance for Nonviolent Programming Inc. (Whitney G. Vanderwerff); Nehemiah's Builders Inc. (Marcuis Wade); North Carolina African Services Coalition Inc. (Pat Priest); Nottingham Apartments LLC (James L. Merritt); Oakcrest Center L.L.C. (George Sipsis); **Par Three Financial Inc.** (Richard J. Tuggle); Paramount Petroleum Corp. (N.C. Search Inc.); Piedmont Coffee Co. (Tomi White Bryan); Premier Mental Health Inc. (Ronald Burrell); Promulch LLC (H. Vaughn Ramsey); Racing Club Investments LLC (H. Vaughn Ramsey); RCC of Greensboro Inc. (Sandra Regina Williams); Rehab Builders Inc. (Dennis J. Toman); Rental Associates LLC (James L. Merritt); Rettew Enterprises Inc. (John C. Rettew).

LOAD-DATE: June 23, 1997

FLORIDA SECRETARY OF STATE, UCC RECORD

Debtors. **LONG, JAMES W**

Debtor Address: LONG, JAMES W
PO BOX 1521
MACCLENNY, FL 32063

Secured Parties: BOB'S MARINE VILLAGE; BOMBARDIER CAPITAL INC
(ASSIGNEE)

Secured Party Address: BOB'S MARINE VILLAGE
US 41 NORTH/POB 682
LAKE CITY, FL 32055
DUNS: 060238979

BOMBARDIER CAPITAL INC (ASSIGNEE)
PO BOX 600610
JACKSONVILLE, FL 32260
DUNS: 049795367

Filing Type: INITIAL FILING

Filing Date: 6/19/2000

Filing Number: 200000142491

Filing Office: SECRETARY OF STATE/UCC DIVISION
STATE CAPITOL
TALLAHASSEE, FL 32314

Collateral: VEHICLES

ADDENDUM SEVEN

14-346-1567

DUN & BRADSTREET
FINANCIAL REPORT

010923

PAR THREE FINANCIAL INC

COPYRIGHT 2005 DUN & BRADSTREET INC.

ALL RIGHTS RESERVED

IN DATE

RATING CHANGE

DUNS: 14-346-1567
PAR THREE FINANCIAL INCDATE PRINTED
JAN 15 2005

SUMMARY	
RATING	ER6
	FORMERLY
	ERN
STARTED	1997
SALES \$	\$2,998,000
EMPLOYS	14
HISTORY	CLEAR

101 CONVENTION CENTER DR STE 7
LAS VEGAS NV 89109
TEL: 702 294-5683LOAN BROKER
SIC NO.
61 63

CHIEF EXECUTIVE: MICHAEL L POTTER ESQ, PRESIDENT

* * * CUSTOMER SERVICE * * *

If you need any additional information or have any questions, please call the
D&B Online Customer Service Center at 1-800-223-1026.

* * * SUMMARY ANALYSIS * * *

The Summary Analysis section reflects information in D&B's file as of
January 10, 2005.

RATING SUMMARY . . .

Those businesses which do not lend themselves to a D&B Rating are
assigned an Employee Range designation (ER) which indicates size in
terms of number of employees. An ER6 indicates an employee range from
10 to 19.

Below is an overview of the company's D&B Rating(s) since 03/10/04:

RATING	DATE APPLIED
ER6	03/10/04

* * * PAYMENT SUMMARY * * *

The Payment Summary section reflects payment information in D&B's file as of
the date of this report.

The PAYDEX for this company is 80.

This PAYDEX score indicates that payments to suppliers are general , within
terms, weighed by dollar amounts. When dollar amounts are not considered,

approximately 82% of the company's payments are within terms.

Below is an overview of the company's dollar-weighted payments, segmented by its suppliers' primary industries:

	TOTAL RCV'D	TOTAL DOLLAR AMOUNTS	LARGEST HIGH CREDIT	W/IN TERMS	DAYS SLOW			
	#	\$	\$		<31	31-60	61-90	91+
Total in D&B's file	7	270,500	200,000					
Payment By Industry:								
1 Misc business service	2	27,500	25,000	100	-	-	-	-
2 Business consulting	1	200,000	200,000	100	-	-	-	-
3 Whol chemicals	1	50,000	50,000	100	-	-	-	-
4 Newspaper-print/publ	1	500	500	-	-	50	-	50
5 Telephone communictns	1	250	250	100	-	-	-	-
6 Nonclassified	1	250	250	100	-	-	-	-

Other Payment Categories:

Cash experiences	0	0	0
Payment record unknown	0	0	0
Unfavorable comments	0	0	0
Placed for collection			
with D&B	0	0	
other	0	N/A	

The highest "Now Owes" on file is \$500

The highest "Past Due" on file is \$500

The aggregate dollar amount of the 7 payment experiences in D&B's file equals 111.5% of this company's average monthly sales. In Dun & Bradstreet's opinion, payment experiences exceeding 10% of a company's average monthly sales can be considered representative of payment performance.

PAYMENTS (Amounts may be rounded to nearest figure in prescribed ranges)

Antic - Anticipated (Payments received prior to date of invoice)
Disc - Discounted (Payments received within trade discount period)
Ppt - Prompt (Payments received within terms granted)

REPORTED	PAYING RECORD	HIGH CREDIT	NOW OWES	PAST DUE	SPILLING TERMS	LAST SALE WITHIN
11/04	Spt	25%	-	-		6-12 Mos
	SLOW 90-120	50%	\$00	5%		6-12 Mos
12/04	Spt	25%	-	-		1 Mo
	Spt	25%	-	-	N/A	1 Mo
	Ppt	25%	-	-	N/A	1 Mo
	Spt	25%	-	-	N/A	1 Mo

1800 -0- -0- N/A 1 Mo
 * Payment experiences reflect how bills are met in relation to the terms granted. In some instances payment beyond terms can be the result of disputes over merchandise, skipped invoices etc.
 * Each exper once shown represents a separate account reported by a supplier. Updated trade experiences replace those previously reported.

FINANCE

03/09/04

On MAR 09 2004 Michael L Potter Esq, president, deferred financial statement but submitted the above figures as still representative.

Michael L Potter Esq submitted the following partial estimates dated MAR 09 2004:

Sales for 2003 were \$2,998,000.

HISTORY

03/09/04

MICHAEL L POTTER ESQ, PRESIDENT
 DIRECTOR(S): THE OFFICER(S)

* * * CORPORATE AND BUSINESS REGISTRATIONS * * *
 REPORTED BY THE SECRETARY OF STATE
 OR OTHER OFFICIAL SOURCE AS OF 01/10/2005

REGISTERED NAME: PAR THREE FINANCIAL, INC.

CORPORATION TYPE: PROFIT FILING DATE: 12/17/1996
 BUSINESS TYPE: CORPORATION DURATION: PERPETUAL
 REGISTRATION ID #: 1996294830C

STATE OF ORGANIZATION (INCORPORATION): NEVADA
 DATE OF ORGANIZATION (INCORPORATION) : 12/17/1996

STATUS: CURRENT LO ON FILE;IN GOOD STANDING

WHERE FILED: CORPORATION DIV, CARSON CITY, NV

REGISTERED AGENT: NEVADA CORPORATE HEADQUARTERS, INC., 101 CONVENTION CENTER DR #100, LAS VEGAS, NV 89109

PRINCIPALS: DONALD D MERRITT, PRESIDENT, PO BOX 27740, LAS VEGAS, NV 89126
 DONALD D MERRITT, SECRETARY, PO BOX 27740, LAS VEGAS, NV 89126
 DONALD D MERRITT, TREASURER, PO BOX 27740, LAS VEGAS, NV 89126

History started 1996 in prior. No additional stock is owned

by officers.

MICHAEL L. POTTER USQ born 1951. WOPF HISTORY: 1997-present
active here. Prior experience of 20 years as an attorney.

OPERATION

03/19/04 Operates as a loan broker, specialized as an agent.
Interest and fees. Has 50 account's. Deals to commercial concerns.
Territory : United States & Canada.
EMPLOYEES: 14 which includes officer(s) and 2 part-time.
FACILITIES: Leases 3,500 sq. ft. on 7th floor of a 12 story
steel building.
LOCATION: Suburban business section street.
01-1543CS /0717 99999 098071071

Printing instructions for this report

ADDENDUM EIGHT

ACCOUNTS RECEIVABLE PURCHASE NOTE

THIS ACCOUNTS RECEIVABLE PURCHASE LOAN AGREEMENT is entered into on _____,

2004, by and between _____ (hereinafter "Factor or Purchaser") and Par Three Financial, Inc. (hereinafter "Client or Seller"), a Nevada Corporation doing business at 101 Convention Center Drive, Suite 850, Las Vegas, NV 89109.

WITNESS

WHEREAS, Client is engaged in the business of public / commercial retail lending, and sells and delivers product and/or provides services to Customers on a credit basis, and

WHEREAS, Client desires to obtain funds for operation of its business through the sale of Accounts Receivable Checks and Invoices acceptable to Factor, and

NOW, THEREFORE, in consideration of the covenants and conditions set forth herein and other good and valuable considerations deemed adequate at law, the receipt of which are acknowledged, Factor and Client agree as follows:

1. **Whereas Clauses.** All "Whereas" Clauses and other matters set out herein are incorporated herein by reference. The use of words "Account(s)", "Invoice(s)" and "Checks)" are all interchangeable.
2. **Approval.** Factor shall not be obligated to purchase any Accounts from Client; however, once an Account/Check is submitted by Client and accepted by Factor, Factor shall have the right, but not the obligation, to purchase all subsequent Accounts/Checks relative to that Customer.
3. **Fee.** The fee paid by Client to Factor for factoring Accounts Receivable Checks is two percent (2.0%) per month (24% annually) simple interest of the initial amount of checks purchased by Factor during the term of this Agreement and the option to renew, if such option is exercised by Factor. Payment of fee by Seller to Purchaser will be paid on the first business day of each month. However, the first payment period will be prorated based on the date this Agreement takes affect. The rate of two (2.0%) per month will also be applied to any funds added by Factor to initial sum during the term of this Agreement.
4. **Notice of Dispute.** At the time Factor Purchases an Account, no defense, offset, or counterclaim shall exist with respect to such Account. Client shall provide written notice to Factor within twenty four (24) hours of Client obtaining any knowledge, from any source, of any dispute or disagreement of any nature between the Client and a Customer. Factor shall have the right, but not the obligation, to settle any dispute directly with the Customer; however, any such settlement shall not relieve Client of responsibility for full payment of such Account. Client further agrees to repurchase from Factor in the event of a presumed dispute and/or breach of warranty, all Checks for which 15 days have elapsed since the original Check date. The repurchase price of said Invoices shall be for an amount equal to the amount initially advanced by Factor, plus any fees earned by Factor as defined under paragraph 3.
5. **Property of Factor.** Upon Factor's purchase of an Account from Client, any and all payments from Customer as to that specific Account are the sole property of Factor, and Client agrees not to interfere with Customer's payment thereof. However, should Client pay Factor in full for such Account, or should any such Account be charged back or sold back to Client by Factor, then such Account shall immediately become the sole property of Client. Client may use checks, invoices, real estate, fixtures and any other such assets for collateral. Client may also use any and all proceeds in any way for any legal purposes it may choose.
6. **Payments Received by Client.** Client warrants and represents that at the time Factor purchases an Account from Client no payment will have been made by the Customer named on account either to or for the benefit of the Client. In the event that Client receives a payment from Customer which has become the property of Factor, client shall be deemed to have received the payment in trust for Factor.

Initials

and Client shall immediately turn over such payment to Factor. In the event Client receives a payment which is comprised of monies belonging partially to Client and partially to Factor, Client shall immediately turn over said payment to Factor in its original form and properly endorsed, and Factor shall, upon clearance of payment instrument by Factor's bank, forward a check to Client for Client's portion of the payment.

Representation and Warranties of Client. Client hereby represents and warrants to Purchaser that:

- A. Client is a validly formed, existing Corporation in good standing under the laws of the State of Nevada and said Corporation is properly licensed and authorized to operate its business under the Trade name "Par Three Financial, Inc."
- B. Client is solvent as that term is defined under bankruptcy law and the Uniform Commercial Code.
- C. At the time of purchase of an Account by Factor, Client will be the lawful owner thereof, with good and undisputed title thereto, free and clear of any liens or encumbrances. Each Account shall represent an accurate and undisputed statement of indebtedness owed to Client by a Customer for a sum certain which is due and payable in 30 days or less, arising out of a bonafide sale, delivery and acceptance of produce or performance of service by Client to Customer in the ordinary course of Client's business. No outside person, firm, corporation or business shall have any lien on, or claim to, such Accounts or to the produce described therein or any part thereof.
- D. Client shall notify Factor in writing immediately after obtaining any knowledge from any source of the filing, recording or perfection by any means, of any non-consensual lien, claim, levy, attachment, encumbrance or other court or legal proceeding or process of which client is aware of against Client or any Customer, or against any property of Client or of any Customer.
- E. Client does not, and will not, in any manner, whether directly or indirectly, own, control or exercise dominion over the business of any Account or debt of Customer to be offered or sold by Client to Factor.
- F. Each and every document, statement, record, book, account and invoice, and all information, whether financial or otherwise, provided to Factor by Client, shall be true, accurate and correct to the best of Client's knowledge.
- G. Client and Factor agree that neither shall not under any circumstances or in any manner whatsoever, interfere with each other's rights under this Agreement.
- H. Client will not sell, factor or assign Accounts covered by this Agreement to anyone except to Factor during the term of this Agreement and/or for as long as any indebtedness whatsoever remains owing by Client to Factor under this Agreement. Client has not heretofore sold, factored, assigned or encumbered any Account or Accounts, which are or may become subject to this Agreement.
- I. Client shall not transfer, assign, or pledge any of its Accounts covered by this Agreement and shall not grant a security interest therein, to any party other than Factor.
- J. Client shall not alter, modify, or extend in any manner, the terms of the original Account with a Customer, including, but not limited to, the maximum credit limit of Customer or the time within which payment is to be made, without first obtaining Factor's written consent to such change.
- K. Concerning this Agreement, Client has not transferred, pledged, assigned or granted a security interest in its assets, which Client has not fully disclosed in writing to Factor. Client has not permitted and shall not permit any lien, encumbrance or security interest to be created upon its assets, including but not limited to, its accounts receivable, without the prior written consent of Factor.
- L. Concerning this Agreement, Client shall maintain its assets in good order and repair and shall maintain policies of insurance thereon satisfactory to Factor.
- M. Client shall not sell, assign, pledge or encumber this Agreement or any rights whatsoever hereunder.
- N. Client will immediately notify Factor in writing of any change in the locations of Client's place(s) of business or, if Client has or intends to acquire additional place(s) of business, or prior to any change in Client's primary executive office location, the office or offices where Client's books and records concerning Accounts are located.
- O. Client will immediately notify Factor in writing of any proposed change of Client's name, identity, legal entity, corporate structure, use of additional trade name(s), and/or any proposed change in any

- of the officers, principals, partners, and/or owners of client's business.
- P. At the time Client submits Checks or Invoices on Accounts to Factor for possible purchase, Client will pay for all postage, transportation and or courier charges
 - Q. The purchase of Payday Advance accounts / checks, receivables carries no commissions or additional costs to Factor. All expenditures and or fees, including fees paid to independent factoring agents, is paid directly by Client out of administration costs
8. **Power of Attorney.** In order to facilitate performance of this Agreement, Factor irrevocably appoints Client or any person designated by Client, as his/her attorney in fact, which said appointment shall remain in full force and effect until all Accounts sold to Client have been paid in full and all obligations of Client to Factor have been fully discharged, with full power to:
- A. Receive and open all mail addressed to Factor or to Factor's trade name at or sent to Client's address.
 - B. Endorse the name of Factor or Factor's trade name on any checks or other evidences of payment that come into Factor's possession on Accounts sold to Client by Factor or on which Client holds a security interest, and on any Invoices or other documents relating to any of such Accounts, and deposit same into any account designated by Client.
 - C. Client may, in Factor's name, or otherwise demand, sue for, collect, and subject to Factor's prior written approval give releases for any and all monies due or coming due to Accounts purchased by or pledged to Client.
 - D. Client may compromise, settle, prosecute or defend any action, claim or legal proceeding concerning Accounts purchased by or pledged to factor
 - E. Client may do any and all things reasonably necessary and proper to carry out the purpose and intent of this Agreement.
9. **Inappropriate Payment.** Should Factor receive a payment on an Account or other payment which Factor is incapable of identifying, Factor shall carry this payment as an open item and shall notify Client and return it to Client or to Customer upon proof satisfactory to the Factor of the right thereto. If however, such proof is not received within six (6) months following Factor's receipt of such payment, Factor shall have the right to consider such payment or unidentified item as credit toward any outstanding obligations or indebtedness of Client to Factor.
10. **Default.** Any one or more of the following shall represent a default under this Agreement:
- A. Client fails to pay any indebtedness to Factor when due.
 - B. Client's breach of any term, provision, warranty or representation made hereunder or under any other agreement between Factor and Client.
 - C. The appointment of a receiver or trustee for all or a substantial portion of the assets of the Client. The insolvency of Client or the inability of Client to pay debts as they mature, or an assignment of assets by Client for the benefit of creditors, or the voluntary or involuntary filing of a petition in bankruptcy court or a similar proceeding in any court.
 - D. The filing or service of any levy, attachment, execution, tax assessment or similar legal process affecting Client's or Factor's collateral
 - E. The furnishing at anytime to Factor of a materially false or inaccurate document, representation, warranty or other information or documentation by client, whether financial or otherwise.
11. **Remedies.** In the event of a default by Client, Factor shall have the right to do the following, in addition to any and all other remedies provided by law:
- A. Enforce the security interest granted hereunder.
 - B. Grant extensions, compromise claims and settles disputes with respect to the Account purchased by Factor, regardless of price or methods of payment, all done without prior notice to or permission of Client
 - C. Return to Client any surplus realized and hold Client liable for any deficiencies as provided in the Uniform Commercial Code for the State of Nevada
 - D. In the event of Client's insolvency or bankruptcy, entire proceeds of Trust Account at Client's bank will be distributed equally to Factors on a pro rata basis
12. **Confidentiality.** Factor acknowledges that any knowledge or information relating to Client and Client's business and its operations is valuable, proprietary and confidential in nature, and Factor agrees to maintain full confidentiality of such information

13. **Non-Compete.** Factor agrees for a period of two (2) years from the date of execution of this Agreement that he/she will not own, in whole or in part, consult with, be employed by, or otherwise engage or participate in any business in competition with Client's Business within a one hundred mile radius of Client's Business as located in this Agreement. Further, Factor agrees not to induce or attempt to induce any employee, client, customer or consultant of Client to terminate or in any way alter their relationship with Client, or to disparage the business reputation or financial condition of Client. However, nothing contained herein shall prohibit Factor from offering the same or similar factoring services to any prospective Client and entering into this same or similar agreement with any prospective or new Client of Factor.
14. **Termination.** This Agreement shall continue in full force and effect unless terminated by ninety (90) days written notice by Factor to Client provided however, that no such termination should be terminated or otherwise affect Client's obligations hereunder incurred or accrued prior to such termination notice. Following any notice of termination, Client remains fully liable to Factor for any Accounts purchased before such termination, and Factor will continue to hold a security interest in Client's Accounts and other Collateral mentioned above until all existing indebtedness of Client to Factor has been paid in full or Factor is otherwise satisfied. Except for cause, this agreement may be extended up to an additional nine (9) months at Factor's option.
15. **Glossary.** The following terms shall have the following meanings when used in this Agreement:
- A. **"Account"** means any and all rights to receive payment for goods sold or leased and delivered or for services rendered to a Customer of Client, which is not evidenced by an instrument and or chattel paper, as those terms are defined in the Uniform Commercial Code for the State of Nevada.
 - B. **"Acceptable Account"** means an Account conforming to the warranties and terms set forth herein and otherwise acceptable to Factor.
 - C. **"Invoice"** means an Invoice on an Acceptable Account, conforming to the warranties and terms set forth herein and otherwise acceptable to Factor.
 - D. **"Customer"** means Client's Customer or Account Debtor.
 - E. **"Collateral"** means the tangible and intangible property given as security for the obligations of Client under this Agreement.
 - F. **"Warranty"** means to guarantee, as a material element of this Agreement, and each separate warranty herein is also an independent condition to Client's performance and duties under this Agreement.
 - G. **"Credit Dispute"** means a claim of any kind whatsoever by Customer against Client that would reduce the amount collectible from Customer by Factor, arising from any disagreement whatsoever between Customer and Client valid or invalid, at any time, both before and/or after the signing of this Agreement or the purchase of Account.
 - H. **"Credit Problem"** means a Customer is unable to pay his/her debts because of insolvency, or the Customer files a voluntary petition in bankruptcy, or is subjected to an involuntary petition in bankruptcy, or the quitting of Customer's Business and/or other like situations.
16. **Indemnification.** Client shall indemnify and hold Factor harmless against any and all liability, claim, demand, ill-will and damage arising from Factor's collecting or attempting to collect any Account, provided that Factor has complied with all applicable laws in its collection efforts, and/or from the failure of Client to pay taxes due and payable to any taxing authority, including all costs and reasonable attorneys' fees.
17. **Miscellaneous.**
- A. **Waivers.** No action taken pursuant to this Agreement, including any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action or compliance with any representation, warranty, covenant or agreement contained herein or any documents delivered in connection herewith. No waiver by any party hereto of any right or remedy shall be effective unless in writing and signed by the party waiving said right or remedy. A waiver of a right, remedy or particular section or heading under this Agreement is not a waiver of rights or remedies of any other section(s) or heading(s) herein.
 - B. **Notices.** All notices, requests, demands and other communications which are required or may be given under this Agreement shall be in writing and shall be delivered by first class mail, postage and delivery confirmation prepaid, or by courier, transportation prepaid, to the party at the address herein contained or to such other address as such party shall have specified in writing by notice. Any and all such notices shall be deemed to have been received on the date of actual receipt.

- C. **Sections and Other Headings.** The section numbers and other headings contained in this agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.
- D. **Governing Law.** This Agreement and all transactions contemplated hereby, shall be governed by, construed and enforced, in accordance with the laws of the **State of Nevada**. The parties hereto waive trial by jury and agree to submit to the personal jurisdiction and venue of a court of subject matter jurisdiction located in **Clark County, State of Nevada**. In the event that litigation results from or arises out of this Agreement or the performance hereof, the parties to this Agreement agree to reimburse the prevailing party's reasonable attorney's fees, court costs, and other reasonable expenses, whether or not taxable by the court as costs, in addition to any other relief to which the prevailing party may be entitled. In such event, no action shall be entertained by said court or any court of competent jurisdiction if filed more than one year subsequent to the date the cause(s) of action actually occurred regardless of whether damages were, otherwise as of said time, calculable.
- E. **Effective Date.** This Agreement shall become effective upon acceptance and execution hereof by the parties hereto.
- F. **Reliance by Factor.** All representations and warranties made by Client herein and in the Preliminary Evaluation Report are true and correct and Client acknowledges and understands that Factor has relied thereon in entering into this Agreement.
- G. **Term.** The term of this Agreement is for a period of nine (9) months from date of execution by the parties hereto. At the conclusion of term, Factor and Client have the option to renew this Agreement for an additional nine (9) month period at the same terms and conditions as stated herein.
18. **ACKNOWLEDGMENT.** Client acknowledges no knowledge of the existence of Local, State or Federal Tax Liens.

None
Statement

Par Three Financial, Inc.

19. **ACKNOWLEDGMENT.** Client acknowledges no knowledge of UCC Filings against current or future receivables.

None
Statement

Par Three Financial, Inc.

IN WITNESS WHEREOF, this agreement has been executed by each of the individual parties hereto and signed by Factor and a duly authorized officer of Client, and attested under the corporate seal of the Secretary of the Corporation, all on the date and year set out below.

SIGNED AND DELIVERED IN THE PRESENCE OF:

Signature of Witness

Print Name of Witness

Client/Seller: Par Three Financial, Inc.

Factor/Purchaser:

By: _____
Signature

By: _____
Signature

Print Name: Title:

Print Name:

Date:

Date:

ADDENDUM

Addendum to **ACCOUNTS RECEIVABLE PURCHASE NOTE** between _____
 _____ Factor/Purchaser and Par Three Financial, Inc. Client/Seller.
 Whereas, _____ Factor/Purchaser does hereby purchase \$ _____
 of accumulated Accounts Receivable Purchases, Checks and Invoices from Par Three Financial, Inc.
 Client/Seller, which checks are written by Customers and made payable to Par Three Financial, Inc. for a
 total of _____ dollars as of _____ 2004 for a term of nine (9)
 months, commencing this date.

Factor/Purchaser is required to give Client 90 day written notice of termination of this Agreement as
 such Notice is provided for herein. In the event of termination by Factor, 100% of all monies, including
 principal and fees thereon, are due and payable by Client to Factor by day 90 of said Notice of Termination.

Factor Signature:

Signature: **Title:**

Print Name:

Print Name:

Address:

Par Three Financial, Inc.
101 Convention Center Dr. Suite 850
Las Vegas, NV 89109
Office: 702-471-6933
Fax: 702-471-6983
Toll-Free Customer Service: 877-533-6600

Mailing Address:
Par Three Financial, Inc.
P.O. Box 27740
Las Vegas, NV 89126

Home Phone:

Work Phone:

Business Public Records - Select your Business

UCC SEARCH RESULTS

Business Public Records

Select your business *Universal Creditors Corp.*

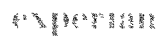
Below are the businesses that match your search criteria in Experian's database. To ensure you receive the correct report on the business you're interested in, **you can request up to 10 of the reports** listed below. Simply check the box next to the company's information and hit either the "Add to report" or the "See report" button to continue.

Company Name	Report Count	Report Status
COMPANY 3 FRESNO CA	1	
COMPANY OF THREE, INC. DBA CATELLI'S THE REX HEALDSBURG CA 95448	1	
COMPANY OF THREE, INC., HEALDSBURG CA 95448	2	
CORPORATE FINANCE, INC. DALLAS CA 75205	1	
FIN. INC. VAN NUYS CA 91411	1	
FINANCIAL CORP SAN FRANCISCO CA 94104	1	
FINANCIAL, INC. EUREKA CA 95502	1	
PAR SANTA ROSA CA 95098	1	
PAR COMPANY ROWLAND HEIGHTS CA	1	
PARS FINANCIAL CORP SAN DIEGO CA 92126	1	
POWER FINANCIAL, LLC GARDEN GROVE CA 92843	1	
STONE FINANCIAL THOUSAND OAKS CA	2	
THE FINANCE COMPANY FOUNTAIN VALLEY CA 92708	1	
THE FINANCE COMPANY NORFOLK CA 23513	2	
THE FINANCE COMPANY COVINA CA 91724	1	
THREE LOS ANGELES CA	1	
THREE AND SONS LLC WOODLAND HILLS CA 91367	1	
THREE AND SONS, LLC WOODLAND HILLS CA 91367	1	
THREE CO PLEASANTON CA 94588	1	
THREE SONS INC MONTEBELLO CA	1	

[Add to report »](#) - OR - [See report »](#)
[Next results >>](#)
<https://www.experian.com/b2b/reports/PRReportAction.do>

1.12.2005

Business Public Records - Select your Business



Business Public Records

1/12/2005
10:11 AM

Select your business: *Unknown Company - CA*

Below are the businesses that match your search criteria in Experian's database. To ensure you receive the correct report on the business you're interested in, **you can request up to 10 of the reports** listed below. Simply check the box next to the company's information and hit either the "Add to report" or the "See report" button to continue.

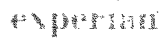
Company Name	Address	City	State	Zip	Phone	Check	Help »
THREE SONS INC						<input type="checkbox"/>	
PICO RIVERA CA						<input type="checkbox"/>	

Add to report » - OR - **See report »**

[<< Previous results](#) | [Next results >>](#)
Showing results 21- 21 of 21

Report Page 13

Business Public Records - Select your Business



Business Public Records

Select your business: *University of Maryland, College*

Below are the businesses that match your search criteria in Experian's database. To ensure you receive the correct report on the business you're interested in, **you can request up to 10 of the reports** listed below. Simply check the box next to the company's information and hit either the "Add to report" or the "See report" button to continue.

		Help »
CORPORATE FINANCIAL INC MIAMI FL 33176	1	
CORPORATE FINANCIAL, INC. MIAMI FL 33176	1	---
DBA PRESIDENT #3 MIAMI FL 33135	1	---
DBA THREE SONS ORLANDO FL 32837	1	
M'S THREE POMPANO BEACH FL 33068	1	
MS FINANCIAL INC RIDGELAND FL 39157	1	
NUMBER 3 CORPORATION FT MYERS FL	1	
P FINANCIAL INC CORAL GABLES FL 33134	1	---
P FINANCIAL INC CORAL GABLES FL 33134	2	
P. FINANCIAL, INC. CORAL GABLES FL 33134	1	
PAR INC DAYTONA BEACH FL 321184480	1	
PAR INC DAYTONA BEACH FL 32118	1	
PAR INC ORMOND BEACH FL 32074	1	
PAR THREE INC JACKSONVILLE FL 32225	1	
PAR, INC. DAYTONA BEACH FL 32118	1	
PRESIDENT #3 MIAMI FL 33135	1	
PRESIDENT #3 MIAMI FL 33135	1	
STONE FINANCIAL CORPORATION CHICAGO FL 606017568	1	
THE FINANCE CO JACKSONVILLE FL 32211	1	
THE FINANCE COMPANY NORFOLK FL 23513	1	

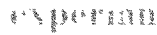
[Add to report »](#) - OR - [See report »](#)
[Next results >>](#)

Showing results 1 - 26 of 28

<https://www.experian.com/b2breports/PRReportAction.do>

1/12/2005

Business Public Records - Select your Business



Business Public Records



Select your business: Universal Commercial Corp.

Below are the businesses that match your search criteria in Experian's database. To ensure you receive the correct report on the business you're interested in, **you can request up to 10 of the reports** listed below. Simply check the box next to the company's information and hit either the "Add to report" or the "See report" button to continue.

Business Name	Count	Report	Help »
THE FINANCE COMPANY NORFOLK FL 23513	1	1	
THE FINANCE COMPANY NORFOLK FL 23513	2	1	
THE FINANCE COMPANY NORFOLK FL 23513	2	1	
THE FINANCE COMPANY MANASSAS FL 22110	1	1	
THE FINANCE COMPANY JACKSONVILLE FL 32211	3	1	
THE FINANCE COMPANY NORFOLK FL 23513	1	1	
THE FINANCE COMPANY MANASSAS FL 22110	1	1	
THE FINANCE COMPANY JACKSONVILLE FL 32225	1	1	

[Add to report »](#) - OR - [See report »](#)
[<< Previous results](#) | [All results](#)

Showing results 21- 28 of 28

[Return to Search Results](#)

EXPRIAN

Uniform Commercial Code Report



=====

FLORIDA UCC DETAIL REPORT

DATA COVERAGE THROUGH 12/31/00 SEARCH COMPLETED

=====

Filing Location: SECRETARY OF STATE OF FLORIDA
BUREAU OF ARCHIVES & RECORD MANAGEMENT
TALLAHASSEE, FL 32399-0250

Original Filing Number: 060000125897
Original Filing Date: 06/17/1997

Collateral: FURNITURE AND FIXTURES
MACHINERY AND EQUIPMENT

Debtor: BLEWITT KENNETH
16229 SAN CARLOS BLVD
FT MYERS, FL

Additional Debtor: BLEWITT RICHARD
16229 SAN CARLOS BLVD
FT MYERS, FL

Additional Debtor: NUMBER 3 CORPORATION
16229 SAN CARLOS BLVD
FT MYERS, FL

Secured Party: WARNER RUSSELL C
371 N TOWER & RIVER DR
FT MYERS, FL 33901

=====

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Experian

1-800-426-9938

Uniform Commercial Code Report

Print Report

Report ID: 1000000041103

=====

FLORIDA UCC DETAIL REPORT

DATA COVERAGE THROUGH: 07/15/2005 REPORT COMPLETED: 07/15/2005

=====

Filing Location: SECRETARY OF STATE OF FLORIDA
BUREAU OF ARCHIVES & RECORD MANAGEMENT
TALLAHASSEE, FL 32309-0200

Original Filing Number: 1000000041103
Original Filing Date: 07/15/2005

Collateral: HEREAFTER ACQUIRED PROPERTY
INVENTORY
ALPHABETICALLY BY COLLATERAL
OTHER

Debtor: F. FINANCIAL, INC.
255 ALHAMBRA CIRCLE, SUITE 600
CORAL GABLES, FL 33134

Additional Debtor: F. FINANCIAL, INC.
255 ALHAMBRA CIRCLE SUITE 600
CORAL GABLES, FL 33134

SSN: 650-45-6042

Secured Party: BANKUNITED FSF
155 ALHAMBRA CIR, SUITE 100
CORAL GABLES, FL 33134

Additional Secured Party: BANKUNITED, FSF
255 ALHAMBRA CIR., SUITE 100
CORAL GABLES, FL 33134

=====

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Business Public Records - Printable Report

Uniform Commercial Code Report

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                        FLORIDA UCC DETAIL REPORT
DATA COVERAGE THROUGH          SEARCH COMPLETED
01/11/05                        01/11/05 11:19 AM EST
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Filing Location:      SECRETARY OF STATE OF FLORIDA
                      BUREAU OF ARCHIVES & RECORD MANAGEMENT
                      TALLAHASSEE, FL 32399-0250

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Original Filing Number: 970000224100
Original Filing Date:   10/03/1997

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Collateral:           FURNITURE AND FIXTURES
                      HEREFTER ACQUIRED PROPERTY
                      MACHINERY AND EQUIPMENT
                      OTHER

```

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Debtor:               S FINANCIAL INC
                      255 ALHAMBRA CIRCLE SUITE 600
                      TALLAHASSEE, FL 32311

```

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Secured Party:        BANKUNITED FSI
                      255 ALHAMBRA CIRCLE SUITE 600
                      TALLAHASSEE, FL 32311

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=====
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FLORIDA UCC DETAIL REPORT

2-23-05 16:13:49 CST 2005

=====

Filing Location: SECRETARY OF STATE OF FLORIDA
BUREAU OF ARCHIVES & RECORD MANAGEMENT
TALLAHASSEE, FLORIDA 32301

Original Filing Number: 960000241311
Original Filing Date: 02/23/05

Collateral: FURNITURE AND FIXTURES
HEREAFTER ACQUIRED PROPERTY
INVENTORY
MACHINERY AND EQUIPMENT
OTHER
VEHICLES

Debtor: F FINANCIAL INC
255 ALHAMBRA CIRCLE SUITE 600
CORAL GABLES, FL 33134

Secured Party: BANKUNITED FSB
255 ALHAMBRA CIRCLE SUITE 100
CORAL GABLES, FL 33134

=====

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02/23/05

Printed: 2/23/05 16:13:49 CST
Page 1 of 1

Business Public Records - Select your Business

Business Public Records

Select your business: [Use my Company](#) [Cancel](#)

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		Help »
<input type="checkbox"/>	PAR 3 LANDSCAPING & MAINTENANCE LAS VEGAS NV 89103	2
<input type="checkbox"/>	PAR 3 LANDSCAPING & MAINTENANCE LAS VEGAS NV 89103	5
<input type="checkbox"/>	PAR 3 LANDSCAPING & MAINTENANCE INC LAS VEGAS NV 89103	2
<input type="checkbox"/>	PAR 3 LANDSCAPING & MAINTENANCE INC LAS VEGAS NV 89103	2
<input type="checkbox"/>	PAR THREE INC. AMELIA NV 45102	1
<input type="checkbox"/>	PAR-3 LANDSCAPE & MAINTENANCE INC. LAS VEGAS NV 89103	1
<input type="checkbox"/>	POWER OF THREE INC LAS VEGAS NV 89109	2

[Add to report »](#)

- OR -

[See report »](#)

Showing results 1-7 of 7

[Privacy](#) [Legal terms](#)

Business Public Records - Select your Business

b2breports

Business Public Records

Select your business. You can only select one.

Below are the businesses that match your search criteria in Experian's database. To ensure you receive the correct report on the business you're interested in, **you can request up to 10 of the reports** listed below. Simply check the box next to the company's information and hit either the "Add to report" or the "See report" button to continue.

			Help »
<input type="checkbox"/>	3	SHARON OK 73857	1
<input type="checkbox"/>		MS FINANCIAL INC	1
<input type="checkbox"/>		RIDGELAND OK 39157	1
<input type="checkbox"/>		PAR III INC	2
<input type="checkbox"/>		TULSA OK 741331613	1
<input type="checkbox"/>		PAR III INC	2
<input type="checkbox"/>		TULSA OK 74133	1
<input type="checkbox"/>		PAR III INC	1
<input type="checkbox"/>		TULSA OK 74133	1

Add to report »

- OR -

See report »

Showing results 1- 5 of 5

Business Public Records - Printable Report

4-00-12



Uniform Commercial Code Report



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=====
                                OKLAHOMA UCC DETAIL REPORT
DATA COVERAGE THROUGH          SEARCH COMPLETED
4-00-12                          Sep 12 16:08:40 CDT 2005
=====

Filing Location:                SECRETARY OF STATE OF OKLAHOMA
                                320 ROBERT S KERR AVENUE STE 105
                                OKLAHOMA CITY, OK 73102

Original Filing Number:         2004014891658
Original Filing Date:           12/17/04

Debtor:                         FAR III INC
                                6221 S. 107TH E AVENUE
                                OKLAHOMA CITY, OK 73155

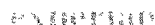
Secured Party:                  SPIRITBANK
                                601 N MAIN
                                OKLAHOMA CITY, OK 73101
=====

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Business Public Records - Printable Report




Uniform Commercial Code Report



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OKLAHOMA UCC DETAIL REPORT

DATE COVERAGE THROUGH 4-11-05 SEARCH COMPLETED Nov Jan 11 11:11:11 AM CDT

=====

Filing Location: SECRETARY OF STATE OF OKLAHOMA
320 ROBERT S KERR AVENUE STE 165
OKLAHOMA CITY, OK 73102

Original Filing Number: 2002001864629
Original Filing Date: 02/12/2002

Collateral: HEREAFTER ACQUIRED PROPERTY
INVENTORY
MACHINERY AND EQUIPMENT
OTHER

Debtor: OKT OIL & GAS COMPANY INC
6221 S 107TH EAST AVE
TULSA, OK 74133

Additional Debtor: PAR III INC
6221 S 107TH EAST AVE
TULSA, OK 74133

Secured Party: GOLD BANK
PO BOX 5258
TULSA, OK 74108

=====

FILING AND CHANGE

=====

Document number: 2002010121-11
Filing Date: 08/07/2002
Filing Type: UCC FINANCE STATEMENT, AMENDMENT

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===== OKLAHOMA PR Detail Report =====
 Report Generated: 11/12/2005 10:41:00 AM
 Report File: OKLAHOMA PR Detail Report 2005

Client Name: SECRETARY OF STATE OF OKLAHOMA
 400 ROBERT S. MURPHY AVENUE, SUITE 300
 OKLAHOMA CITY, OK 73104

Original Filing Number: 00010761017
 Original Filing Date: 07/01/01

Collateral: FURNITURE AND FIXTURES
 HEREFTER ACQUIRED PROPERTY
 WHATEVER AND WHICHEVER
 OTHER

Debtor: 6221 S 107TH EAST AVE
 TULSA, OK 74125

Secured Party: BANK OF OKLAHOMA NA
 PO BOX 269800
 OKLAHOMA CITY, OK 73126-9800

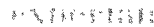
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                                OKLAHOMA UCC DETAIL REPORT
DATA COVERAGE THROUGH                               SEARCH COMPLETED
(12/1/11)                                              (12/1/11 11:10:11 AM CST 2011)
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Filing Location:      SECRETARY OF STATE OF OKLAHOMA
                      320 ROBERT S KERR AVENUE STE 105
                      OKLAHOMA CITY, OK 73102

Original Filing Number: 2002008445013
Original Filing Date:   07/01/2000

Collateral:           FURNITURE AND FIXTURES
                      HEREAFTER ACQUIRED PROPERTY
                      INVENTORY
                      MACHINERY AND EQUIPMENT
                      OTHER

Debtor:                FAR III INC
                      6121 S 107TH E AVE
                      TULSA, OK 74112-3611

Secured Party:         ARVEST BANK
                      PO BOX 3007
                      TULSA, OK 74112-3007
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OKLAHOMA PUBLIC RECORDS REPORT
 OKLAHOMA PUBLIC RECORDS REPORT
 OKLAHOMA PUBLIC RECORDS REPORT
 OKLAHOMA PUBLIC RECORDS REPORT

Filing Location: SECRETARY OF STATE OF OKLAHOMA
 500 ROBERT S. WALKER AVENUE STE 100
 OKLAHOMA CITY, OK 73102

Original Filing Number: 10000000910652
 Original Filing Date: 02/01/2005

Collateral: HEREAFTER ACQUIRED PROPERTY
 VEHICLES

Debtor: PAR III INC
 6221 S 16TH E AVE
 OKLAHOMA CITY, OK 73102

Secured Party: STATE BANK AND TRUST
 PO BOX 3007
 OKLAHOMA CITY, OK 73102

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Business Public Records - Printable Report

42X 11-21-05



Uniform Commercial Code Report



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                        OKLAHOMA UCC DETAIL REPORT
DATA COVERAGE THROUGH:                               SEARCH COMPLETE
12/12/05                                                12/12/05 10:14:11 AM CST
=====

Filing Information:      PERPETUAL TRUST CO. OKLAHOMA
                        320 ROBERT S. KERR AVENUE STE 105
                        NORMAN, OKLAHOMA 73069

Original Filing Number: 15450004844
                        12/12/05 10:14:11 AM CST

Collateral:             HEREAFTER ACQUIRED PROPERTY
                        MACHINERY AND EQUIPMENT
                        ETC.

Debtor:                 S
                        PT 1 BOX 200
                        NORMAN, OK 73069

Secured Party:          FIRST AMERICAN BANK NA
                        PO BOX 804
                        NORMAN, OK 73069
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12/12/05 10:14:11 AM CST

Business Public Records - Printable Report

~~*~*~*~*~*~*~*~*

E3

Uniform Commercial Code Report



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=====
                                OKLAHOMA UCC DETAIL REPORT
DATE COVERAGE THROUGH          SEARCH COMPLETED
4-02-06                        Wed Jan 12 14:13:11 CST 2006
=====

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Filing Location:      SECRETARY OF STATE OF OKLAHOMA
                      320 ROBERT S KERR AVENUE STE 105
                      OKLAHOMA CITY, OK 73102

```

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Original Filing Number:  H1993000003786
Original Filing Date:    11/29/10

```

```

Debtor:                MS FINANCIAL INC
                      715 S PEAR ORCHARD # 300
                      OKLAHOMA CITY, OK 73102

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Secured Party:         NATIONAL WESTMINSTER BANK USA
                      175 WATER STREET
                      NEW YORK, NY 10038

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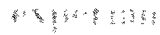
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Printed: 1/12/2006

Business Public Records - Select your Business



Business Public Records

Select your business: **Three Stone, Inc.**

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Business Name	Number of Reports	
CEO FINANCIAL INC SIKESTON UT 63801	2	<input type="checkbox"/>
CEO FINANCIAL INC. SIKESTON UT 63801	1	<input type="checkbox"/>
CEO Financial, Inc Sikeston UT 63801	1	<input type="checkbox"/>
THREE STONE INC SPRINGFIELD UT 65803	1	<input type="checkbox"/>
THREE STONE, INC SPRINGFIELD UT 65803	1	<input type="checkbox"/>
Three Stone, Inc Springfield UT 65803	1	<input type="checkbox"/>
THREE STONE, INC. SPRINGFIELD UT 65803	4	<input type="checkbox"/>

[Help »](#)
[Add to report »](#)

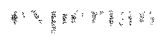
- OR -

[See report »](#)

Showing results 1- 7 of 7

[Privacy](#) [Legal terms](#)

Business Public Records - Select your Business



Business Public Records

Select your business: *University of Nevada, Reno*

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Help »		
BUTNER, MICHAEL L ELKO NV 89801	1	<input type="checkbox"/>
DOVER, MICHAEL L LIVERMORE NV 94550	1	<input type="checkbox"/>
DOVER, MICHAEL L LIVERMORE NV 94550	2	<input type="checkbox"/>
FOSTER, MITCHELL L MEDINA NV 44256	1	<input type="checkbox"/>
GOUKER, MIKE L LAS VEGAS NV 89102	2	<input type="checkbox"/>
Michael Lewis Las Vegas NV 89129	1	<input type="checkbox"/>
MICHAEL LEWIS FALLON NV 89406	1	<input type="checkbox"/>
MICHAEL LEWIS FALLON NV 89406	1	<input type="checkbox"/>
MICHAEL LEWIS FALLON NV 89406	1	<input type="checkbox"/>
MICHAEL LUH LAS VEGAS NV 89103	1	<input type="checkbox"/>
MONTEZ, MICHAEL L LAS VEGAS NV 89102	1	<input type="checkbox"/>
PETRE, MICHAEL L BROWNSBURG NV 46112	1	<input type="checkbox"/>
TERRY, MICHAEL L HOLDEN NV 64040	1	<input type="checkbox"/>
TERRY, MICHAEL L HOLDEN NV 64040	1	<input type="checkbox"/>

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Business Public Records - Printable Report

Uniform Commercial Code Report



 CALIFORNIA UCC DETAIL REPORT
 DATA GENERATED: 4-62-10
 REPORT GENERATED: Wed Jan 12 16:27:54 CST 2005

Filing Location: SECRETARY OF STATE OF CALIFORNIA
 1500 11TH STREET
 SACRAMENTO, CA 95833

Original Filing Number: 199920761175
 Original Filing Date: 07/24/1999

Collateral: FURNITURE AND FIXTURES
 MACHINERY AND EQUIPMENT

Debtor: ABRAMS HAL
 500 WASHINGTON ST, 6TH FL
 SAN FRANCISCO, CA 94111
 SSN: 530-34-1902

Additional Debtor: ABRAMS MICHAEL
 500 WASHINGTON ST, 6TH FL
 SAN FRANCISCO, CA 94111
 SSN: 530-18-6117

Additional Debtor: POTTER MICHAEL
 500 WASHINGTON ST, 6TH FL
 SAN FRANCISCO, CA 94111
 SSN: 545-04-6708

Additional Debtor: WHITFIELD SCOTT
 500 WASHINGTON ST, 6TH FL
 SAN FRANCISCO, CA 94111
 SSN: 508-17-6111

Secured Party: HOME SAVINGS OF AMERICA, FSE.
 FOR 60000
 500 WASHINGTON ST, 6TH FL
 SSN: 950-34-2900

 FILING AND CHANGE

 Filing Date: 06/29/2004
 Filing Type: UCC FINANCE STATEMENT, CONTINUATION

Business Public Records - Printable Report

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EXPERIAN

Business Public Records - Printable Report

UNIFORM COMMERCIAL CODE

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Uniform Commercial Code Report

Print Report

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DATE AND PAGE: 4-02-10 4-02-10

CALIFORNIA UCC DETAIL REPORT

SR1474 - 01/12/05

Wed Jan 12 16:27:06 CST 2005

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Filing Location: SECRETARY OF STATE OF CALIFORNIA
1500 11TH STREET
SACRAMENTO, CA 95833

Original Filing Number: 1992124142
Assigned Filing Number: 1992124142

Collateral: FURNITURE AND FIXTURES
MACHINERY AND EQUIPMENT
OTHER
REAL ESTATE

Debtor: 1128 NONCHALANT DR
SIMI VALLEY, CA
94661-2000

Additional Debtor: FORGA MAUREEN
1128 NONCHALANT DR
SIMI VALLEY, CA
SSN: 566-62-9226

Additional Debtor: POTTER MICHAEL
1128 NONCHALANT DR
SIMI VALLEY, CA
SSN: 114-48-3111

Secured Party: SIMI VALLEY BK
P O BOX 687
SIMI VALLEY, CA

=====

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THIS DATA IS FOR INFORMATION PURPOSES ONLY. CERTIFICATION MAY ONLY BE OBTAINED THROUGH THE CALIFORNIA OFFICE OF THE CALIFORNIA SECRETARY OF STATE.


1/12/2005

ADDENDUM TEN

LETTER FROM GARY CAPOUCH

10/10/07 11:00 AM FAX 10/10/07 11:00 AM
 10/10/07 11:00 AM FAX 10/10/07 11:00 AM

Barry,

Greetings from Sequim. It was nice meeting you on the phone tonight. As an "added bonus" our conversation will give us our "Big Time Needing Point" for the next time I see Don Scott. Maybe I can get in his head while we are on the golf course. I don't know if he mentioned it, but we have been friends/acquaintances for several years. My wife suggested I get a "cut." 

As I may have mentioned, I am very "comfortable" with our investment in Par 3. Like you, my wife Pat (now retired teacher) thought "it was too good to be true" when I started talking about investing 6 figures of our retirement dollars with them. Over the last 6 months, she has become very comfortable - as have I. We get copies of the cashier's checks from Bof A to Equity Trust (my custodial account private placement manager for my IRA) at the end of each month via FedEx Overnight. The only goof up was at the end of November when Bof A put the wrong account numbers on the checks. I caught the error, called ETC and Par 3, and the error was corrected. I have been "underwhelmed" with ETC's performance, but so far they are the only bank I have found that will do "private placement." If you want to shield yourself from some of Uncle Sam's taxes, you may want to consider using ETC for a "self-directed IRA." Their website is www.equityetc.com "if you're interested."

I've enclosed a copy of the latest newsletter, along with some other material you may find interesting. To me, it's interesting that a lot of a Check Cashine/Payday Loan store's customers are "across the street" from the bank they have their checking account with. But, it makes sense to me, since banks are putting 3-7 day holds on deposited checks before they will allow access to funds. Unfortunately, there are a lot of people these days who cannot wait that long to remain solvent.

The other objection I'm getting is "it's too good to be true." Yes 24% is GREAT interest. But, if you consider that Par 3 is taking my 24% money and loaning it out at 60%, they (Par 3) is highly unlikely to consider "killing the goose who laid the golden egg" and leave for Rio in the morning. They would literally "kill" a highly profitable industry.

In good conscience I have considered that I am getting a very nice return "on the backs of the poor" so to speak, but over the years, I have learned to manage my money and credit. The end result is I sleep very well at night with our investment in Par 3. Quite honestly, Pat and I are better off than when we were both working full time. As a result, I am very happily retired - thank you very much.

Hope this information helps. Let me know if you have any further questions.

Gary Capouch
 (360) 809-0675 (cell)
teabacks@verizon.net



Nine-month Notes Are a Year-Round Problem.

ADDENDUM ELEVEN

NEWSRELEASE

NINE-MONTH NOTES NEWS RELEASE

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Office of the Comptroller • Department of Banking and Finance • State of Florida
Tallahassee, FL 32399-0350 • (904) 488-0286 • Fax (904) 921-7243

Offices: Miami (305) 810-1111 Ft. Lauderdale (954) 712-4800
Jacksonville (904) 390-4660 West Palm Beach (561) 837-5054
Pensacola (850) 494-7380 Tampa (813) 272-2565
Orlando (407) 245-0760 Tallahassee (850) 410-9286
Fort Myers (941) 338-2445

For Immediate Release
February 7, 2001
: Jim Richardson, Public Affairs
(850) 410-9286

Nine-month Notes Are a Year-Round Problem

Tallahassee—The Florida Department of Banking and Finance (DBF) protects consumers by regulating a wide variety of financial industries in the state, including investment services and opportunities. Many times, investors are attracted by promises of high returns, only to find that they have purchased products that have been sold illegally, resulting in tremendous financial loss.

Financial fraud costs consumers an estimated \$660 billion annually. In an effort to combat economic crime, Florida's Governor and Cabinet have proclaimed Feb. 5-11 as Fight Fraud in Florida. As part of this initiative, the Department of Banking and Finance (DBF) is alerting citizens about some of the latest scams being perpetrated in our state. Comptroller Bob Milligan, who directs DBF, wants all citizens to be aware of this crime and armed with knowledge to avoid being a victim of financial fraud.

One investment product, the so-called "\$25,000, nine-month promissory note," is often marketed as a foolproof way to get up to 36 percent return in a short period of time. Nine-month promissory notes are a type of negotiable paper that is used to facilitate large commercial business transactions between financial institutions. They are not commonly purchased by the general public.

In the case of nine-month notes being sold as investments, sellers and consumers should know that the sale of such notes is likely to require licensing in accordance with Florida securities law - with all the attendant disclosures that accompany any securities transaction. Too often, brokers and, more recently, investment agents, are selling nine-month notes as investments, when neither the instrument nor the seller are registered or licensed. In fact, many are under the misconception that these notes do not need to be licensed.

Additionally, nine-month notes have been used in Ponzi schemes, where early investors are paid off with notes with money from later buyers.

Consumers should be aware that any investment involves risk; there are no sure things, and if an opportunity sounds too good to be true, it probably is. Before investing, ask plenty of questions, get all proposals in writing, read the fine print and verify everything. Florida residents should call the

<http://www.dbf.state.fl.us/alerts01/alrt0301.html>

1/20/2005

Nine-month Notes Are a Year-Round Problem

Comptroller's Consumer Hotline toll-free at 1-800-848-3792 to find out whether companies and their products are properly licensed and registered, and whether any complaints have been filed. In addition to the hotline, DBF and the Attorney General's Office have also created a new [website](#) to help educate the public about financial fraud. The URL is [http://www.dbf.state.fl.us/alerts01/alrt0301.html](#).



Bank One vs. Abroms
AL and CO - 2001

Budd vs. Deposit Guaranty Bank
MS - 2001

Situs Capital vs. Credit Suisse First Boston
TX - 2001

Sparks vs. Tharaldson
TX - 2001

US Bancorp vs. ACG Westpark Plaza
MT - 2001

SCD Ewa Development vs. Unity House
Hawai'i - 2001

Hudspeth vs. Bank of America
Texas - 2001

Smith vs. MS Insurance Co.
Mississippi - 2001

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Curriculum Vitae

DON COKER

**BANKING, MANAGEMENT, ECONOMIC & VALUATION
CONSULTANT**

**1600 SUGAR CREEK DRIVE, EAST
MOBILE, AL 36695-2728**

**TELEPHONE:
(251) 633-0180**

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(806) 734-6585
(973) 201-2534**

**CELLULAR:
(251) 716-3200**

**E-MAIL:
Bankexpert@cs.com**

REPRESENTATIVE CLIENT LIST

BANKING:

THE WORLD BANK
 BANK OF AMERICA
 BANK OF AMERICA - CANADA
 NATIONS BANK
 BANK ONE
 WACHOVIA/FIRST UNION BANK
 FIRSTSTAR/U.S. BANCORP
 SOUTHTRUST BANK
 WELLS FARGO MORTGAGE CORP.
 NATIONAL CITY (BANK) CORPORATION
 CREDIT SUISSE FIRST BOSTON MORTGAGE
 CAPITAL, LLC
 BANCO INDUSTRIAL DE VENEZUELA
 BANK OF OKLAHOMA
 SOUTHERN SECURITY BANK
 FIRST NATIONAL BANK OF PALM BEACH
 FIRST BANK, TALLAHASSEE, FL
 SUNBELT SAVINGS (NOW BANK OF AMERICA)
 SUNBELT FEDERAL BANK
 BANCOMER, S.A. (MEXICO)
 BLUEBONNET SAVINGS
 STANDARD PACIFIC SAVINGS BANK
 FIRST NATIONAL BANK OF BREWTON
 SOUTHEAST BANK OF MIAMI, FL
 BARNETT BANKS, INC.
 BANK OF THE SOUTHWEST
 PRIORITY BANCORP
 PANAMERICAN BANK
 KEYCORP
 IOWA TRUST
 BANCO BILBAO VIZCAYA ARGENTARIA
 (BILBAO AND MADRID, SPAIN)
 TANZANIA INSTITUTE OF BANKERS
 BANK OF TANZANIA (CENTRAL BANK)
 GOLDOME REALTY CREDIT CORP.
 WESTERN GULF SAVINGS & LOAN
 (NOW WELLS FARGO)
 AMERICAN SAVINGS & LOAN
 EDS - BEI GOLEMBE (BANKING)
 CONSULTANTS

GOVERNMENTAL:

FDIC
 RESOLUTION TRUST CORP.
 FEDERAL SAVINGS & LOAN INSUR. CORP.
 FEDERAL HOME LOAN MORTGAGE CORP.
 FARM CREDIT BANK
 U.S. DEPARTMENT OF EDUCATION,
 INSPECTOR GENERAL'S OFFICE
 INTERNAL REVENUE SERVICE,
 U.S. TREASURY DEPARTMENT
 STATE OF TEXAS, SAVINGS & LOAN
 DEPARTMENT (REGULATORS)
 13 MUNICIPALITIES IN CA AND CO
 CITY OF NEW ORLEANS, LOUISIANA
 FEDERAL RESERVE BANK OF ATLANTA
 TANZANIA REVENUE AUTHORITY
 U.S. AGENCY FOR INTERNATIONAL
 DEVELOPMENT (WASHINGTON, D.C.,
 AND KIEV, UKRAINE)
 U.S. AIR FORCE
 JUDGE ADVOCATE GENERAL'S CORPS
 - OFFICE OF SPECIAL
 INVESTIGATIONS

INSURANCE:

AIG
 CNA
 ST. PAUL INSURANCE COMPANY
 LIBERTY MUTUAL INSURANCE CO.
 ACADIA INSURANCE CO.
 ERIE INSURANCE GROUP
 TRAVELERS INSURANCE COMPANY
 MILITARY PREMIUM MANAGERS
 RELIANCE INSURANCE
 INTERNATIONAL TRANSPORT
 INTERMEDIARIES CLUB, LTD., UK
 NORTH RIVER INSURANCE CO.
 AMERICAN CASUALTY INSURANCE CO.
 NATIONAL UNION FIRE INSURANCE CO.
 CONTINENTAL CASUALTY INSURANCE CO.
 LLOYDS OF LONDON, UK
 CRUM & FORSTER MANAGERS
 XEROX FINANCIAL SERVICES
 THOMAS MILLER & COMPANY, UK

CORPORATE, CONTINUED...:

FORD MOTOR CREDIT CORP.	CHRISTIAN BAY SHIPPING COMPANY
CISCO SYSTEMS	CLIFF'S NOTES PUBLISHING
IBM – LOTUS DEVELOPMENT	DATAEASE INTERNATIONAL
KAWASAKI	ADDSTOR SOFTWARE
WALMART STORES	KILIMANJARO INTERNATIONAL
MCGLADREY & PULLEN, LLP (CPAs)	CHEMONICS INTERNATIONAL
INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE FOUNDATION (LONDON)	INSTITUTE FOR STOCK MARKET & MANAGEMENT (MOSCOW, RUSSIA)
NAPA AUTO PARTS	
DARRYL'S RESTAURANTS	
SEARS	
HERITAGE MOTELS, INC.	
BARRON'S EDUCATIONAL SOFTWARE	
CALCO AEROSPACE	
RUBY TUESDAY	
REMINGTON INVESTMENTS	
ALPHA SOFTWARE	
PHIVOS KARNAOS (LONDON & MOSCOW)	
NETWORK SOFTWARE ASSOCIATES	
COMPUTER ASSOCIATES	
GEORGE B. KAISER, FORBES 400 LIST	
SIMON & SCHUSTER PUBLISHING	
CREDITCARE CREDIT COUNSELING	
JANCIK CONCRETE SPECIALTIES	
KEYTRONICS	
CONCORD BOAT CORP.	
UKRAINIAN ACCOUNTING REFORM PROJECT (KIEV, UKRAINE)	
NBI SOFTWARE	
HOULIHAN'S RESTAURANTS	
AMERICAN CONSOLIDATED CREDIT	
ZAPADNOE KOLTZE (MOSCOW, RUSSIA)	
BENCHMARKING PARTNERS	
GARY THARALDSON, FORBES 400 LIST	
BOSTON CREDIT CORP.	
MORRISON'S CAFETERIAS	
BRODERBUND SOFTWARE	
PRENTICE HALL PUBLISHING	
SURGENCY	
AVTOVAZ (RUSSIA'S LARGEST CAR CO. – LADA AUTOMOBILES)	
AUTOVAZBANK (TAGLIATTI, RUSSIA)	
TIMEWORKS SOFTWARE	
WORDSTAR	
BUTTONWARE SOFTWARE (PC CALC+)	

PAST PROFESSIONAL MEMBERSHIPS

AMERICAN BANKERS ASSOCIATION
 AMERICAN INSTITUTE OF BANKING, CHAPTER OFFICER AND BANK CONSULTANT
 U.S. LEAGUE OF SAVINGS INSTITUTIONS
 INSTITUTE OF FINANCIAL EDUCATION, INSTRUCTOR
 MORTGAGE BANKERS ASSOCIATION
 TEXAS MORTGAGE BANKERS ASSOCIATION
 AMERICAN COUNCIL OF STATE SAVINGS SUPERVISORS
 AMERICAN BANKRUPTCY INSTITUTE - COMMITTEES: PUBLIC COMPANIES, REAL ESTATE,
 INTERNATIONAL, U.C.C., COMMERCIAL FRAUD TASKFORCE, HEALTHCARE.
 BOARD OF REALTORS
 NATIONAL ASSOCIATION OF HOMEBUILDERS
 INTERNATIONAL COUNCIL OF SHOPPING CENTERS
 HOUSTON (TX) CHAMBER OF COMMERCE, ECONOMIC DEVELOPMENT COMMITTEE, 9 YEARS

BOOKS, PUBLICATIONS & NEWS MEDIA

COMPLETE GUIDE TO INCOME PROPERTY FINANCING & LOAN PACKAGING, PRENTICE HALL, 1984.
 SELF-MANAGEMENT: A GUIDE TO CAREER ADVANCEMENT AND DEVELOPMENT, WRITTEN UNDER CONTRACT FOR PRENTICE HALL, 1985.
 COMPLETE REAL ESTATE COMPUTER WORKBOOK, TECHNICAL EDITOR, PRENTICE HALL, 1986.
 THE COMPLETE LOAN OFFICERS HANDBOOK, PRESENTLY WRITING.
 "MONEY LAUNDERING: A DIRTY BUSINESS," WHITE-COLLAR CRIME REPORTER, OCT. 1991.
 TREASURY MAGAZINE PUBLISHED BY THE ECONOMIST. INTERVIEWED AND QUOTED IN AN ARTICLE WRITTEN BY A U.S. NEWS AND WORLD REPORT EDITOR.
 "HOW YOU CAN HELP YOUR CLIENT GET A LOAN TO FINANCE REAL ESTATE PROJECTS," PRACTICING ATTORNEY'S NEWSLETTER, APRIL 1984.
 "GETTING A GRIP ON CORE DEPOSIT INTANGIBLES," AMERICAN BANKER NEWSPAPER, 1996.
 "THE DOLLARS AND SENSE OF BUSINESS VALUATION," PUBLISHED ON THE WEBSITE OF THE AMERICAN BANK ATTORNEYS ASSOCIATION, APRIL 1996.
 "PUTTING A CASH VALUE ON A BUSINESS," INTERVIEWED BY LAWYERS WEEKLY, MAY 6, 1996.
 "BUSINESS VALUATION TECHNIQUES," BUSINESS LOCATOR, MAY 1996.
 "VALUING BUSINESSES," TAB LETTER, TECHNICAL ASSISTANCE BUREAU, JUNE 1996.
 "USING BUSINESS VALUE TO ACHIEVE AD VALOREM TAX REDUCTIONS ON COMMERCIAL REAL ESTATE PROPERTIES," JOURNAL OF PROPERTY MANAGEMENT, JUNE 1997.
 WHAT'S WORKING IN CREDIT & COLLECTION, QUOTED RE: BANK DRAFTS, MARCH 1997.
 "MAKING SENSE OF INTERNET STOCK VALUES," TAB LETTER, JULY 1999.
 AFRICA TODAY, EXTENSIVE VIDEO COVERAGE BY REUTERS NEWS AGENCY OF TANZANIA REVENUE AUTHORITY TRAINING PROGRAM, ARUSHA, TANZANIA, MARCH 11, 2001 AND OTHER DATES.
 INTERVIEWED BY ITV TELEVISION NETWORK ON THE SUBJECTS OF BANKING, TAXATION, ECONOMIC GROWTH AND DEVELOPMENT, AND CAPITALISM IN TANZANIA, IN ARUSHA, TANZANIA, MARCH 16, 2001. AIRED NATIONWIDE ON MARCH 17, 2001, AND SUBSEQUENT DATES.

THE ATLANTA JOURNAL-CONSTITUTION, INTERVIEWED FOR AN ARTICLE ON BANKING REGULATORY POLICIES AND PROCEDURES, AND BANKING PRACTICES, AUGUST 21, 2001.

THE ATLANTA JOURNAL-CONSTITUTION, INTERVIEWED FOR AN ARTICLE ON BANKING PRACTICES AND PROCEDURES TO HELP DETER TERRORISM, SEPTEMBER 19, 2001.

CREDIT AND COLLECTIONS WORLD MAGAZINE AND WEBSITE, INTERVIEWED REGARDING BANKING PRACTICES, SEPT. 20, 2001.

THE ATLANTA JOURNAL-CONSTITUTION, INTERVIEWED FOR AN ARTICLE ON BANKING PRACTICES AND PROCEDURES INVOLVING FUNDS TRANSFERS AND MONEY LAUNDERING BY TERRORIST GROUPS, SEPTEMBER 21, 2001.

THE BALTIMORE SUN, INTERVIEWED FOR AN ARTICLE REGARDING CONSIDERATIONS FOR THE FUTURE OF ALLIED IRISH BANKS, PLC'S, AMERICAN SUBSIDIARY ALLFIRST BANK, MAY 30, 2002.

THE ATLANTA JOURNAL-CONSTITUTION, INTERVIEWED FOR AN ARTICLE ON THE EFFECTS OF THE SEPT. 11, 2001, TERRORIST EVENTS ON BANKING PRACTICES AND PROCEDURES, AUGUST 29, 2002.

CREDIT AND COLLECTIONS WORLD MAGAZINE AND WEBSITE, INTERVIEWED REGARDING BANK ACCOUNT OPENING PRACTICES AND IDENTITY THEFT, SEPTEMBER 20, 2002.

OUTSIDE THE LINES TELEVISION SHOW AND ESPN.COM WEBSITE, INTERVIEWED REGARDING IDENTITY THEFT MATTERS, NOVEMBER 1 - 3, 2002.

LENDING INTELLIGENCE MAGAZINE AND WEBSITE, INTERVIEWED REGARDING LENDING PRACTICES AND INTEREST RATES, NOVEMBER 25, 2002.

NBC EVENING NEWS, INTERVIEWED REGARDING IDENTITY THEFT, NOVEMBER 25, 2002.

LENDING INTELLIGENCE MAGAZINE AND WEBSITE, INTERVIEWED REGARDING CREDIT SCORING AND LOAN APPROVAL POLICIES AND PROCEDURES, DECEMBER 10, 2002.

CHARLOTTE OBSERVER NEWSPAPER, INTERVIEWED REGARDING BANK BRANCHING AND OPERATIONS POLICIES, JANUARY 21, 2003.

STREET & SMITH'S *SPORTSBUSINESS JOURNAL*, INTERVIEWED REGARDING BUSINESS ETHICS AND CORPORATE GOVERNANCE ISSUES INVOLVING THE U.S. OLYMPIC COMMITTEE'S CHIEF EXECUTIVE OFFICER, FEBRUARY 25, 2003.

FAMILY FINANCES COLUMN THAT APPEARS IN *THE BOSTON HERALD*, *THE PITTSBURGH POST GAZETTE*, *THE PALM BEACH (FL) DAILY NEWS*, AND SOME SCRIPPS HOWARD NEWSPAPERS, INTERVIEWED REGARDING CREDIT CARD DEBT MATTERS, SEPTEMBER 23, 2003.

THE DENVER POST, INTERVIEWED REGARDING BANKING ECONOMICS AND BANK BRANCHING JANUARY 21, 2004. ARTICLE APPEARED FEBRUARY 8, 2004.

MORTGAGE LENDING COMPLIANCE ALERT, INTERVIEWED REGARDING HOUSING MARKET OUTLOOK, ECONOMIC AND INTEREST RATE OUTLOOK, AND LENDER PROFITABILITY STRATEGIES, FEB. 2004.

CFA (CHARTERED FINANCIAL ANALYST) MAGAZINE, PUBLISHED BY THE ASSOCIATION FOR INVESTMENT RESEARCH, NOW KNOWN AS THE CFA INSTITUTE, A PROFESSIONAL ORGANIZATION FOR STOCK ANALYSTS, INTERVIEWED REGARDING BUSINESS ETHICS AND CORPORATE GOVERNANCE ISSUES, MAY 2004.

CONTINENTAL MAGAZINE, INTERVIEWED REGARDING BANKING AND ITS EFFECT ON ECONOMIC RESURGENCE, ESPECIALLY AS IT RELATES TO IRELAND, JULY 6, 2004.

EUROPEAN BUSINESS SCHOOL, INTERNATIONAL UNIVERSITY: SCHLOß REICHARTSHAUSEN, GERMANY, INTERVIEWED REGARDING INTELLECTUAL PROPERTY AND BUSINESS VALUATION TECHNIQUES, JULY 24, 2004.

SAN FRANCISCO (CA) DAILY JOURNAL, A LEGAL NEWSPAPER, QUOTED REGARDING THE ALLEGED BANK FRAUD AND CREDIT CARD FRAUD FACTORS RELATED TO ALLEGED GUANTANAMO BAY, CUBA, U.S. AIR FORCE TRANSLATOR SPY AHMAD AL HALABI, JULY 28, 2004.

MORTGAGE LENDING COMPLIANCE ALERT, PROVIDED DIRECTION TO A BANK ON THE PROPER WAY TO HANDLE AN ATTEMPTED FRAUDULENT INTERNATIONAL WIRE TRANSFER. SEPTEMBER 30, 2004.
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MORTGAGE LENDING COMPLIANCE ALERT, INTERVIEWED REGARDING THE BANK SECRECY ACT AND SUSPICIOUS ACTIVITY REPORTS (SARS). OCTOBER 12, 2004.

MORTGAGE LENDING COMPLIANCE ALERT, PROVIDED INPUT FOR AN ARTICLE CONCERNING COMPLIANCE WITH THE RULES AND REGULATIONS OF LENDING. NOVEMBER 4, 2004.

PATENT

ON JULY 8, 2002, THE UNITED STATES PATENT & TRADEMARK OFFICE REGISTERED A PROVISIONAL PATENT TO DON COKER FOR A BUSINESS PROCESS FOR IMPROVING THE PREVENTION AND DETECTION OF FINANCIAL FRAUD INVOLVING PERSONAL AND BUSINESS CHECKS, CASHIER'S CHECKS, POSTAL AND COMMERCIAL MONEY ORDERS, LETTERS OF CREDIT, BILLS OF EXCHANGE, DRAFTS, AND MANY OTHER TYPES OF FINANCIAL INSTRUMENTS. ON JULY 1, 2003, THE FORMAL PATENT APPLICATION WAS FILED. THIS PATENT IS BEING ACTIVELY MARKETED AT THIS TIME.

CIVIC ACTIVITIES

KATY SCHOOL DISTRICT (HOUSTON SUBURB), TRUSTEE, ELECTIVE POSITION.
 U.S. ARMY RESERVE, 1966-1968, OFFICER TRAINING, FT. BRAGG, NC; HONORABLE DISCHARGE.
 NOTTINGHAM COUNTRY CIVIC CLUB, OFFICER, 1,500 FAMILY NEIGHBORHOOD ASSOCIATION.
 SUNDAY SCHOOL TEACHER, USHER, HOST.

EDUCATION

COLLEGE:
 UNIVERSITY OF ALABAMA, BACHELOR OF ARTS DEGREE, 1968.

AWARDS AND ACTIVITIES: GOLD MERIT KEY AWARD FOR OUTSTANDING SERVICE TO THE UNIVERSITY, OUTSTANDING ARMY ROTC PLATOON LEADER AWARD, NUMEROUS PUBLICATIONS ACTIVITIES, APARTMENT MANAGER.
 UNIVERSITY OF ALABAMA, 1968; UNIVERSITY OF HOUSTON, 1973, POST-GRADUATE WORK IN FINANCE, ECONOMICS, VALUATION, REAL ESTATE, ACCOUNTING, AND LAW.
 SPRING HILL COLLEGE, MASTERS DEGREE-LEVEL LIBERAL ARTS AND ETHICS COURSEWORK.
 SOUTHERN METHODIST UNIVERSITY, COMMERCIAL REAL ESTATE FINANCE AND SECURITIES.
 SECONDARY:
 UNIVERSITY MILITARY SCHOOL, MOBILE, AL. 12 YEAR PREP DAY SCHOOL. GRADUATED 1963.
 AWARDS AND ACTIVITIES: OUTSTANDING STUDENT IN ENGLISH, MILITARY AWARDS, SCHOOL PUBLICATIONS.

OTHER PROFESSIONAL EDUCATION:

AMERICAN BANKERS ASSOCIATION - AMERICAN INSTITUTE OF BANKING: FINANCIAL STATEMENT ANALYSIS, CORPORATE FINANCE, BANK INVESTMENTS, PRINCIPLES OF BANK OPERATIONS, BANK MANAGEMENT, TRUSTS.

NATIONAL INSTITUTE OF REAL ESTATE BOARDS, COMMERCIAL REAL ESTATE FINANCE.

INTERNATIONAL COUNCIL OF SHOPPING CENTERS, SHOPPING CENTER FINANCE.

NATIONAL HOSPITAL ASS'N., 1-WEEK WORKSHOP, HEALTHCARE ENTITY FINANCE & VALUATION.

MORTGAGE BANKERS ASSOCIATION, TWO WORKSHOPS: MULTI-FAMILY AND SFR LENDING.

FEDERAL HOME LOAN BANK OF DALLAS, TRAINING WORKSHOPS ON FINANCIAL INSTITUTION MANAGEMENT, LENDING, INVESTMENTS, OPERATIONS, ET. AL.

TEXAS SAVINGS & LOAN DEPARTMENT, TRAINING WORKSHOPS ON FINANCIAL INSTITUTION MANAGEMENT, LENDING, INVESTMENTS, OPERATIONS, ET. AL.

FEDERAL HOME LOAN MORTGAGE CORP., REAL ESTATE FINANCING WORKSHOP.

FROST BANK, ADVANCED CREDIT ANALYSIS AND BUSINESS FINANCE.

FIRST NATIONAL BANK OF MOBILE, AL (NOW AMSOUTH BANCORPORATION), FINANCIAL STATEMENT ANALYSIS, BUSINESS FINANCE, BANK INVESTMENTS, CREDIT CARD OPERATIONS, DEPOSIT OPERATIONS, BANK MANAGEMENT, TRUSTS.

GIBRALTAR SAVINGS ASSOCIATION (NOW BANK OF AMERICA), COMMERCIAL REAL ESTATE FINANCE, VALUATION, JOINT-VENTURES.

CITICORP, BUSINESS, CORPORATE AND REAL ESTATE FINANCE, VALUATION, DEPOSIT PRODUCTS, INVESTMENTS.

SOUTHWEST BANCSHARES (NOW BANK ONE) BUSINESS FINANCE AND REAL ESTATE INVESTMENTS.

COMMERCIAL CREDIT CORP. (NOW CITIGROUP), ONE-WEEK CORPORATE MARKETING CONFERENCE COVERING IN-DEPTH TRAINING IN ALL FINANCIAL PRODUCTS, PLUS 28 CDC

LEARNING CENTER COURSES (EQUIVALENT TO 45 SEMESTER HOURS) IN BUSINESS AND ECONOMIC SUBJECTS.

PROFESSIONAL BACKGROUND SUMMARY

20+ YEARS EXPERIENCE IN MANAGEMENT AT BANKS, SAVINGS & LOANS, CREDIT COMPANIES, MORTGAGE BANKING COMPANIES, AND A GOVERNMENTAL FINANCIAL INSTITUTION REGULATORY AGENCY. POSITIONS HELD INCLUDE BOARD OF DIRECTORS MEMBER, EXECUTIVE VICE PRESIDENT, SENIOR VICE PRESIDENT, MANAGER OF LENDING, MANAGER OF MORTGAGE BANKING, REGULATORY SUPERVISORY AGENT (TANTAMOUNT TO CEO). COMMITTEE MEMBERSHIPS INCLUDED LOAN COMMITTEE, EXECUTIVE COMMITTEE, AUDIT COMMITTEE, AND PENSION PLAN TRUSTEE. SERVED AS A CORPORATE OFFICER OF VARIOUS FINANCIAL INSTITUTION SUBSIDIARIES. MANAGEMENT RESPONSIBILITIES INCLUDED AS MANY AS 300 PEOPLE IN 22 LOCATIONS NATIONWIDE IN TEN STATES AND \$1 BILLION IN GROSS ASSETS. DIRECTLY RESPONSIBLE FOR ORIGINATING OVER 36,000 LOANS OF ALL TYPES TOTALING OVER \$5 BILLION, REVIEWING OVER 25,000 REAL ESTATE APPRAISALS, AND REVIEWING WELL OVER 100,000 FINANCIAL STATEMENTS AND CREDIT REPORTS.

OTHER PROFESSIONAL ACTIVITIES

CONSULTANT ON VARIOUS ECONOMIC, VALUATION, REAL ESTATE, MARKETING, AND BANKING MATTERS FOR CLIENTS IN 44 STATES AND SEVERAL FOREIGN COUNTRIES.
 EXPERT WITNESS, FOR PLAINTIFF AND DEFENSE, LISTED IN THE ASSOCIATION OF TRIAL LAWYERS OF AMERICA'S AND THE DEFENSE RESEARCH INSTITUTE'S DATABASES OF RECOMMENDED CONSULTANTS, PLUS STATE AND LOCAL DATABASES IN AT LEAST 18 STATES AND CITIES.
 APPROVED REGISTERED U.S. GOVERNMENT CONTRACTOR.
 PHILLIPS COLLEGE, FORMER ADJUNCT PROFESSOR OF BUSINESS.
 INSTITUTE OF FINANCIAL EDUCATION, APPROVED INSTRUCTOR FOR THE EDUCATIONAL ARM OF THE U.S. LEAGUE OF SAVINGS INSTITUTIONS.
 PRENTICE HALL PUBLISHING, SIMON & SCHUSTER, PARAMOUNT COMMUNICATIONS, TECHNICAL EDITOR AND CONSULTANT ON BANKING AND REAL ESTATE SUBJECTS.
 HOLIDAY INN AND RODEWAY INNS, LENDER ADVISORY PANELS.
 NOVICK'S MONEY MARKET SEMINARS, PANELIST.
 NATIONAL DIRECTORY OF CORPORATE DISTRESS SPECIALISTS, APPROVED MGT. CONSULTANT.
 LICENSED SPORTS AGENT, APPROVED BY THE NCAA, MAJOR LEAGUE BASEBALL PLAYERS ASSOCIATION, AND THE AL ATHLETE AGENTS REGULATORY COMMISSION.
 AMERICAN ARBITRATION ASSOCIATION, APPROVED PROFESSIONAL COMMERCIAL ARBITRATOR.
 STATE OF TEXAS REAL ESTATE COMMISSION, APPROVED INSTRUCTOR AND WRITER OF COURSES.
 TEXAS REAL ESTATE BROKER'S LICENSE HELD FOR OVER TEN YEARS.

RECOGNITION IN BIOGRAPHICAL REFERENCE BOOKS

WHO'S WHO IN AMERICA, 52ND – 58TH EDS.
 WHO'S WHO IN THE WORLD, 12TH-16TH EDS.
 WHO'S WHO IN FINANCE & INDUSTRY, 26TH – 29TH AND 33RD EDS.
 WHO'S WHO IN MEDICINE & HEALTHCARE, 1ST – 4TH EDS.
 WHO'S WHO IN THE SOUTH & SOUTHWEST, 21ST – 31ST EDS.
 DIRECTORY OF DISTINGUISHED AMERICANS, 5TH ED.
 WHO'S WHO REGISTRY OF GLOBAL BUSINESS LEADERS, 1993 - 1994 ED.
 WHO'S WHO OF EMERGING LEADERS OF AMERICA, 3RD ED.
 WHO'S WHO REGISTRY OF BUSINESS LEADERS, 1994 ED.
 PERSONALITIES OF AMERICA, 5TH ED.; PERSONALITIES OF THE SOUTH, 14TH ED.

EMPLOYMENT HISTORY

1986 - PRESENT: BANKING, MANAGEMENT & ECONOMIC CONSULTANT, MOBILE, AL.
CONSULTING ASSIGNMENTS COVERING A BROAD RANGE OF ACTIVITIES SUCH AS GOVERNMENTAL REGULATORY OVERSIGHT, INTERIM MANAGEMENT, BUSINESS & ASSET VALUATION, INTANGIBLE ASSET ISSUES, BANK INCOME TAX ISSUES, MERGER & ACQUISITION ASSISTANCE, DUE DILIGENCE, BUSINESS PLANS, MANAGEMENT ADVICE, WRITING & EDITING BUSINESS BOOKS, FEASIBILITY & MARKETING STUDIES & ADVICE, TRAINING & EDUCATIONAL ACTIVITIES; AND EXPERT WITNESS ENGAGEMENTS COVERING ALL AREAS OF BANKING, VALUATION, SECURITIES, ECONOMICS, TRUSTS & ESTATES, REAL ESTATE, INTERNATIONAL MANAGEMENT, FINANCE, AND BUSINESS.

1985 - 1986: EXECUTIVE VICE PRESIDENT, MANAGER OF LENDING & MORTGAGE BANKING, BOARD OF DIRECTORS MEMBER, HOME SAVINGS (NOW CITIGROUP), HOUSTON, TX. NUMBER TWO EXECUTIVE. HEAVILY INVOLVED IN INVESTMENTS & DEPOSIT ACTIVITIES. OFFICER OF SEVERAL SUBSIDIARY COMPANIES. MEMBER OF LOAN COMMITTEE, EXECUTIVE COMMITTEE, AUDIT COMMITTEE, ET. AL. RESTRUCTURED THE MANAGEMENT RESPONSIBILITIES OF SEVERAL DEPARTMENTS, INCREASING PRODUCTION, EFFICIENCY, AND STAFF UTILIZATION. COMPLETED A \$54 MILLION COLLATERALIZED MORTGAGE OBLIGATION LOAN SECURITIZATION TRANSACTION THROUGH SALOMON BROS.

1984 - 1985: SENIOR VICE PRESIDENT, MANAGER OF LENDING, FIRST FEDERAL SAVINGS (NOW GUARANTY BANK), SAN ANTONIO, TX. MANAGER OF ALL LENDING & MORTGAGE BANKING, NUMBER TWO EXECUTIVE. HEAVILY INVOLVED IN INVESTMENTS & DEPOSIT ACTIVITIES. INCREASED LENDING ACTIVITIES 40% IN ONE YEAR WHILE REDUCING DELINQUENCIES, ALL WITHOUT ADDING TO HEADCOUNT.

1983 - 1984: SOUTHWEST REGIONAL MANAGER, FORD MOTOR CREDIT CORP., HOUSTON, TX. MANAGER OF COMMERCIAL REAL ESTATE FINANCE, AND SOME FINANCING WITH DEALERS.

1977 - 1983: REGIONAL MANAGER, COMMERCIAL CREDIT COMPANY (NOW CITIGROUP), HOUSTON, TX. MANAGER OF COMMERCIAL AND RESIDENTIAL REAL ESTATE FINANCING FOR THE SOUTHWEST, AND FORMALLY TRAINED & INVOLVED IN ALL FINANCIAL PRODUCTS OFFERED BY THE \$7 BILLION COMPANY. CHOSEN TO OPEN THE COMPANY'S FIRST COMMERCIAL REAL ESTATE LENDING FIELD OFFICE. RECEIVED THE COMPANY'S LARGEST BONUS EVER AWARDED, TWICE.

1974 - 1977: MANAGER OF COMMERCIAL REAL ESTATE LENDING AND MORTGAGE BANKING, SOUTHWEST BANCSHARES (NOW BANK ONE), HOUSTON, TX. ALSO INVOLVED IN THE ORIGINATION AND ADMINISTRATION OF CONSTRUCTION LOANS, DEPOSIT & INVESTMENT ACTIVITIES FOR LENDING CLIENTS INCLUDING WEALTHY FOREIGN NATIONALS, CORPORATE & PERSONAL LENDING, AND CREDIT CARD OPERATIONS. CREATED AND MANAGED A COMMERCIAL MORTGAGE BANKING ENTITY FOR A MULTI-BANK HOLDING COMPANY.

1973 - 1974: ASSISTANT REGIONAL MANAGER & ASSISTANT TREASURER, CITICORP REAL ESTATE, HOUSTON, TX. MORTGAGE BANKING AND CONSTRUCTION LENDING FOR CITIBANK, N.A. (NY), AND DEPOSIT & INVESTMENT ACTIVITIES FOR WEALTHY FOREIGN CLIENTS. HELPED

ESTABLISH A NEW OFFICE IN HOUSTON, INCLUDING STAFFING AND THE ESTABLISHMENT OF OPERATING POLICIES & PROCEDURES. PRIMARY TERRITORY COVERED SEVEN STATES, AND OPERATED NATIONWIDE & INTERNATIONALLY.

1972 - 1973: LOAN OFFICER & MANAGER OF LENDING DEPARTMENT, GIBRALTAR SAVINGS (NOW CITIGROUP), HOUSTON, TX. AT AGE 26, MANAGED THE DAY-TO-DAY OPERATIONS OF TEXAS' LARGEST S&L (55TH LARGEST IN THE U.S.). HANDLED CONSTRUCTION & SUBDIVISION DEVELOPMENT LOANS, JOINT-VENTURES, AND HIGH-VOLUME BUILDER ACCOUNTS. COMPLETED & IMPLEMENTED SEVERAL WORKFLOW EFFICIENCY IMPROVEMENT PROJECTS FOR VARIOUS DEPARTMENTS.

1968 - 1972: FIRST NATIONAL BANK OF MOBILE (NOW AMSouth), MOBILE, AL. MORTGAGE AND REAL ESTATE SPECIALIST IN THE TRUST DEPARTMENT. TRAINED AND WORKED IN ALL AREAS OF THE BANK INCLUDING CHECKING & SAVINGS, CREDIT, CORPORATE LENDING, PERSONAL LENDING, OPERATIONS, CHECK PROCESSING, AUDIT, INTERNATIONAL, INVESTMENTS, TRUSTS & ESTATES, CORPORATE PENSION PLAN MANAGEMENT, PORTFOLIO MANAGEMENT, STOCK TRANSFER, CORPORATE BOND TRUSTEE, BANK SECURITY, CREDIT CARD OPS, AND FUNDS TRANSFERS.



FRAUD DISCOVERY
INSTITUTE

REPORT ON
RAINMAKER MANAGED LIVING, LLC
JUNE 16, 2005



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Phone & Fax:
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June 16, 2005

Ms. Karen Patterson
Department of Corporations
1515 K Street, Suite 200
Sacramento, CA 95814

Special Agent Peter Norell, Supervisor
Federal Bureau of Investigations
901 West Civic Center Drive, Suite 300
Santa Ana, CA 92679

Special Agent Matt Galioto
FBI Long Island
135 Pinelawn Road, Suite 350
South Melville, NY 11747

Dear Special Agents Norell and Galioto and Ms Patterson:

On June 5, 2005 I received an email from Josh Kriteiman entitled "help." Mr. Kriteiman is the owner of Synergy Consulting, LLC.¹ He indicated that he had recently seen me on *60 Minutes* and was concerned about an investment that he had made into a company called Rainmaker Real Estate Partners.²

In the email he mentioned the company had offered him 30% annual returns. Mr. Kriteiman also stated he and his wife had invested a significant amount of money with Rainmaker Real Estate

¹ Synergy Consulting is located at 1739 Berkley Street, Suite 109, Santa Monica, California 90404 (310-264-6124). Please see Addendum 3 for this email and subsequent emails between Mr. Kriteiman and myself.

² There are many companies under the umbrella of "Rainmaker Real Estate Partners." Please see Addendum 4 where the corporate records that we were able to locate are listed showing the primary players in all these Rainmaker entities to be Sidney F. Levine, Alireza Dilmaghani, James Joseph Conway, and Antoinette Wooten. The various companies and entities include but are not limited to Rainmaker Managed Living, Mortgage Group, 41505, LLC; Rainmaker Managed Living, LLC; Rainmaker Real Estate Partners; and Rainmaker Realty Partners, LLC. For the purposes of this report, whenever possible I will refer to these companies as the "Rainmaker conglomerate." The company lists three addresses on their web site: their main office in New York at 116 W. 23rd Street Corner of Sixth Avenue Fifth Floor, Suite 500 New York, NY 10011; their New Jersey office located at 744 Broad Street, 16th Floor Newark, New Jersey 07102 and one office in California at 100 Oceangate 14th Floor Long Beach, California 90802. As attorney Tom Lloyd notes after evaluating the Rainmaker investment opportunity: "It appears that Dilmaghani has set up a web of entities with partnerships and LLCs designed, on the one hand, to raise equity capital from investors to purchase and operate managed and assisted living arrangements and other real estate investments and, on the other hand, to provide services to the entities raising capital." Mr. Lloyd further details these companies in his unabridged report in Addendum 2.



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Partners (which was supposedly in the business of purchasing residential and or commercial properties and converting them into nursing and assisted care facilities for the elderly).

Subsequent conversations and emails with Mr. Kriteaman revealed that he and his wife have invested \$110,000 into Rainmaker Real Estate Partners. Mr. Kriteaman said he found out about this investment from an "investment opportunity" advertisement that was placed in the January 30, 2005 edition of the Los Angeles Times.³ According to his first email, he became suspicious about his investment because *"we were promised copies of the deeds months ago and I have personally requested this information without success."*

I later learned that the "deeds" Mr. Kriteaman was referring to was the proof of the use of proceeds that he had invested; specifically that the Rainmaker conglomerate had actually bought and closed escrow on certain facilities in New York and Los Angeles that would be converted into assisted living facilities or nursing homes. Based on these concerns we decided to look into the company and subsequently contacted Karen Patterson, enforcement lawyer at the California Department of Corporations. At our request, our client subsequently cooperated directly with Ms. Patterson and we turned over all documents we had received from the client to the California Department of Corporations for evaluation.⁴

APPARENT CLEAR AND PRESENT DANGER TO THE ELDERLY AND THE INVESTING PUBLIC

Currently Rainmaker is soliciting funds from investors and promising outrageous returns (110% over 3 years⁵ or 49% after two years and no less than 25% after one year⁶). This investment capital is supposedly secured by real estate purchased with the money raised. Rainmaker also appears to raise money from the elderly to purchase units (studio living quarters) in advance for \$250,000 per unit.

³ Please see Addendum 5 for the actual copy of the placed ad. It is important to note from this ad that any investment into Rainmaker is "a real estate secured" investment.

⁴ I also contacted Special Agent Matt Galioto from the Long Island office of the FBI and Supervisor Special Agent Peter Norell from the Santa Ana office of the FBI as both appeared to have jurisdiction based on the three Rainmaker office locations.

⁵ Please see Addendum 6, the web site, section entitled "Mortgage Partners" where it says: **"Additional return of 35% "ETF" Early Termination Fee, plus all of the principle on the 36th month, for a total return of 110% in 36 months - GUARANTEED."**

⁶ That the 25% annual return is not a projection and is guaranteed immediately for all investors can be seen in the company web site under "Profit Distribution MIX and Bonus Units" where it states: "Annual minimum guarantee interest of 25% will be paid monthly and quarterly distributions as described in the program report will be made pursuant to the amount of partners in the program." Also, in the section on the web site entitled "Welcome to Rainmaker Managed Living LLC" it reads: "25% Guaranteed Annual interest paid monthly."



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To raise money from the former group of investors, the company places ads in newspapers like the LA Times and offers high returns directly from their web site. The company appears to be run primarily by New York attorney Alizera Dilmaghani, which imputes credibility to the Rainmaker business opportunity (a lawyer holds a position of trust and the assumption is he would only be involved in a legal enterprise). Mr. Dilmaghani appears to also handle the finances for the Rainmaker conglomerate as he is the signer on the checking account from which our client receives his monthly interest payments.⁷

The company also makes claims to current and potential investors of currently running and operating a facility in Kings Park, New York (which, according to them was purchased earlier this year) and yet title reports⁸ and calls to the facility reveal that Rainmaker does not own nor operate that facility. Calls to governmental licensing agencies by our retained expert reveal neither Rainmaker nor its affiliates are licensed to run assisted care facilities or nursing homes in the New York, Los Angeles, or Orange County areas (including La Habra).

In an interview between Ms. Kriteaman⁹ and Mr. Conway, she was recently told that Rainmaker has already raised at least \$10,000,000 and that is strictly from investors like our client. We were not able to determine how many elderly people on top of the \$10,000,000 raised have invested \$250,000. However, when the company makes attractive statements like the following, which appears on their web site, we are concerned about the appeal certain elderly people may have to buy into this \$250,000 offer. Their web site states: "Rainmaker facilities are first class resort or home style facilities offering every amenity and every form of entertainment and activity." Yet we were unable to find any currently operating Rainmaker facilities to prove this statement.¹⁰ This is especially relevant because investors are relying upon a real estate secured

⁷ The checking account number for Rainmaker Managed Living, LLC is 7916184349 and the bank is Commerce Bank. The ABA number for Commerce Bank is 02601367.

⁸ Please see Addendum 7 for title reports on the addresses provided by Rainmaker to our client. To insure accuracy we updated these reports periodically during the construction of this report. Also, that the exact address of this property is 121-125 West Main Street Kings Park, New York 11754-1607 is confirmed by our client in writing and this is the very property that he and his wife relied upon as security for their investment (please see emails from Josh Kriteaman and myself in addendum 3).

⁹ See addendum 8 where notes that were taken at this meeting by Ms. Kriteaman are included. I asked that Mr. And Ms. Kriteaman get answers to certain questions about Rainmaker which resulted in this in person meeting. Now the irony of all ironies about this meeting and the subsequent notes from this meeting was that James Joseph Conway (JJ), also had referred the Kriteaman's to another investment with a man named Edward Showalter. The same Ed Showalter that the Wall Street Journal confirmed in August of 2003 that I helped shut down in a SEC violation. To the Kriteaman's knowledge, Mr. Edward Showalter has nothing to do with the Rainmaker deal except that JJ referred them to the Showalter deal (apparently as a broker) and currently acts as a "broker" for the Rainmaker deal. In fact, according to Ms. Kriteaman's meeting with JJ, the only deal he is currently "selling" to investors is the Rainmaker deal because "it is the best by far." That Mr. Conway speaks on behalf of the company and is more than just a fundraiser can be seen in the corporate documents where he is listed as "Registered Agent."

¹⁰ To reconfirm this fact, we had our client contact the senior management of Rainmaker. His response can be found in Addendum 8. Moreover, in her meeting with Mr. Conway no "new" addresses for current facilities were provided.



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investment; but we could not find evidence of purchased real estate despite Rainmaker having already raised ten million dollars.¹¹ Their web site clearly states to potential investors that, "Rainmaker's war chest allows Rainmaker to be a fast, all cash buyer." The implication is that Rainmaker owns real estate free and clear which secures potential investor's money. Even on the front page of their web site entitled "Welcome to Rainmaker Managed Living, LLC" a bullet point reads: "The security of having your investment backed by New York City real estate."¹²

With all due respect to the current property owner of Kings Park, New York, we photographed the location (included in Addendum 10 of this report), and it was by no means a "first class facility"¹³ even if they did own it—which it appears they do not.

Also troubling is the fact that the Rainmaker conglomerate is soliciting qualified money from investors: specifically IRA proceeds.¹⁴ Whenever a promoter accepts IRA money there is an imputed credibility to the deal. People wrongly assume that if retirement money can legally be deposited in a certain deal, then that deal must have been "checked out by the IRS and blessed as legitimate."

This was clearly a prevalent factor in the Financial Advisory Consultant case where James Lewis' ability to accept IRA money imputed credibility to the potential investor and allowed him to raise millions of IRA money from unwitting investors. For the above-mentioned reasons, it appears that Rainmaker is a clear and present danger to the investing public and specifically the elderly. The below information is not everything there is to know about Rainmaker, their senior management or its investors, but rather everything law enforcement needs to know to independently corroborate our findings.¹⁵ Additionally, it appears that the Rainmaker investment opportunity is relatively new and, if proven to be an untenable business model, can be dealt with more proactively by law enforcement thereby keeping the victim impact to a minimum.¹⁶

¹¹ That they have clearly raised this amount of money and probably more is revealed in a list of current "LLC members" distributed by the company to current participants. Please see Addendum 9 for this list of investors. However, this list does not include any elderly people who may have purchased, for \$250,000, a future studio from Rainmaker.

¹² Please see addendum 6.

¹³ Please see Addendum 10. By making this statement we are not acknowledging that Rainmaker owns this property but merely stating that if they did it would not appear to fit the model being sold to the elderly public.

¹⁴ Please see web site, Addendum 6 under subscription agreement.

¹⁵ As with all of our reports, we encourage independent verification of our findings as we could be wrong in our assumptions and conclusions. Although we believe and think our conclusions are accurate, we encourage independent corroboration of our report. To make this easy for the reader, we always include contact numbers for the people who provided information contained in the report.

¹⁶ Having said this, we are not depreciating the scope of at least \$10,000,000 already having been raised. However, it is our estimate that 100 million of our assumptions are correct.



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COMPANY OVERVIEW

The company's official web site¹⁷ provides the following description of the business model:

"Rainmaker Realty Partners seeks to acquire and operate commercial adult managed living, assisted living and adult living properties and, including without limitation, office buildings, shopping centers, business and industrial parks and other commercial and industrial properties, or businesses through outright purchase or leasehold."

They go on to add: "Rainmaker communities offer independent living in a studio apartment with private bath and shared supervised kitchen facilities. If over time you need more care you automatically transfer to the nearest bed in a Rainmaker Assisted Living community. If you eventually need full supervision nursing care services, you will be automatically transferred to the nearest available bed in a Rainmaker Skilled Nursing facility. These upgrades in care are TOTALLY FREE OF ADDITIONAL CHARGE. Once you book a TIC (stands for tenant in common, *explanation mine*) studio suite that's it. Pay one time and never pay again for standard services. And if you use an existing property to fund your purchase you retire virtually for free and your family keeps your property for the estate. Rainmaker facilities are first class resort or home style facilities offering every amenity and every form of entertainment and activity."

Based on the above, the company web site and the investment materials, it would appear that Rainmaker raises money from the public promising rates of return that range from no less than 25% annually "guaranteed" to 110% over three years. The proceeds raised are then used to purchase residential (or commercial) real estate that is then converted into assisted living or nursing home facilities. According to Rainmaker, assisted living facilities are the bridge between independent living and nursing homes.¹⁸ The company then aggressively markets elderly people to purchase studios in these facilities for \$250,000 per unit for life – even if their health deteriorates and requires permanent nursing care.¹⁹

¹⁷ The company web site can be found at www.rainmakerlifecare.com. We have downloaded the entire web site and included it in Addendum 6 because in our experience when a company realizes they are being looked into, they often take down or materially alter their web site to avoid prosecution. Another web site for "Rainmaker Realty" is www.rainmakerrealty.org/wsn/page5.html, which appears to be a site offering to sell commercial and residential property at a 4% brokers commission. The interesting thing about this site is the many misspelled words! For example, one page that opens the "financing" section misspells the words "services" and "firm." The site reads: "Rainmaker Realty is unique as it offers *servicies* no other real estate *firm* offers. This site, Addendum 11, is included for the sake of thoroughness but is not the main focus of this report.

¹⁸ Please see company web site under "What is Rainmaker Assisted Living?" section.

¹⁹ The problem with these types of promises (including the promise made to investors that they can "cash out at any time") is that they, the promises, are only as good as the company making them. As previously stated, our expert was unable to locate any licensing for the Rainmaker conglomerates, nursing or assisted living care facilities or properties owned by the Rainmaker LLCs that our invested client believed his money was being used to purchase.



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SEVEN SPECIFIC CONCERNS WITH THE RAINMAKER INVESTMENT²⁰

1. According to our expert, high returns are inconsistent with the assisted living and nursing care facility industry and therefore fails the 'normally and regularly' test. In assimilating this report, the Fraud Discovery Institute retained the services of Carl Bryant.²¹ Mr. Bryant's qualifications include being an expert in the Federal regulatory process including policies and procedures for assisted living and nursing homes. He has provided training to healthcare providers; field, administrative, and headquarters staff on regulatory systems for the Healthcare Financing Administration; and the California Department of Health Services; national firms; and various healthcare facilities. He has conducted on-site evaluations and investigations of health facilities to ensure compliance with state and federal laws and regulatory requirements. He has also been an expert witness for almost 20 years and holds a Certification for Director of Staff Development for Nursing Homes.

According to Mr. Bryant, normally and regularly assisted living facilities and nursing homes do not achieve the profit margin warranted and represented to potential Rainmaker investors. After examining profit margins by publicly traded companies in the assisted living and nursing care industries, Mr. Bryant writes:

"Manor Care, Genesis HealthCare Corporation, Extendicare Health Services, National HealthCare Corporation are publicly traded corporations who were ranked in the 50 largest skilled nursing facility chains and the 30 largest assisted living chains reported profit margins between 4.11 to 7.77%. The average profit margin is 6.26%."

How can Rainmaker offer profit margins to investors in the very same industry which range from 25% annually to 110% over three years when well funded, publicly traded companies with far greater "war chests" as it relates to cash and capital for favorable purchasing terms are only earning approximately 6.26% annually? Upon closer examination of this industry, the profit margins shrink further as noted by Mr. Bryant:

²⁰ The Fraud Discovery Institute does not have subpoena power or authority and is therefore at an investigative disadvantage. Our findings must be limited in scope to the public record, company warrants and representations, interviews with our client and other proprietary methodology.

²¹ Mr. Bryant's report in its entirety is included in Addendum 1 of this report. The report also cites several people Mr. Bryant spoke with at the various governmental agencies in New York and California to conclude that Rainmaker is not now nor has it been licensed to run an assisted care facility or a nursing home. As for the Kings Park, New York facility, Mr. Bryant contacted Wendy Brown, Supervisor for Adult Health in Long Island Division (631-851-3090), and she indicated that no change of ownership had occurred and no an application for a change of ownership was in process.



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"Sunrise Senior Living, Emeritus Corporation, American Retirement Corporation are three assisted living chains ranked within the top 30 assisted living facility chains but not in the top 50 nursing home chains. These chains report profit margins ranging from - 11.66 to + 4.74% with an average profit margin of - 2.88%."

Thus the margins being offered by Rainmaker are inconsistent and are not "normally and regularly" found in the assisted health care or nursing home industry.²² Mr. Bryant concludes by stating that: **"Based on my experience, and available data for the long term care industry the Rainmaker Managed Living website contained information that was NOT consistent with the long term care industry."**

2. **Unregistered security offered by unlicensed broker dealers across state lines.** Admittedly, the promoters defend this charge by citing the passive investor exclusion.²³ They argue that since this is an LLC it is exempt from securities laws because (according to the operating agreement) all people in the LLC have equal power to vote on properties. It would be a fine argument except for one major problem. The LLC currently does not own any property for these LLC participants to "equally and not passively" participate in.

In fact, in what has to be the biggest smoking gun I have ever seen in this type of case, the Rainmaker web site states that while their assisted living facilities are being built investors are *still* guaranteed a 25% annual return (this annual return of 25% is guaranteed over and over again throughout the company's materials). How will this return be generated in assisted living facilities with no paying residents? According to the company's official web site, in a section entitled "Start Up Interest Payments":

"The partnership guarantees a minimum return of 25% annually on your partnership shares payable monthly. In the beginning as facilities are under construction, ramp up or lease negotiation. The interest payments during that time will be derived from short term investment in real estate bridge loans, government securities, foreclosed rollovers, income from the operations of the Managing partners law firm, proceeds from

²² In anticipation of the company arguing that point one is not valid because their profit margins are not solely linked to the nursing home and assisted living facility industry, it is appropriate to point out that this is a sword that will cut both ways for Rainmaker. For example, if the company argues that they make these margins (as they allude to in their "Start Up Interest Payments" section) through other income earning endeavors then they will have further complicated their alleged unregistered securities problem. Why? Because it is one thing to say all investors are in an LLC that buys and operates assisted living facilities to duck securities laws, but when you start earning profits for investors by doing things like "bridge loans," or "operating revenue from managing partners law firm" or the "purchasing of government securities" on behalf of the investing public, then you have crossed over into the arena of offering an unregistered security that no LLC formation can shield Rainmaker from.

²³ Please see, for example, the web site in the section entitled "Rainmaker Realty Partners I April 1, 2004 Subscription Agreement" where it states that: "The Securities and Exchange Commission has not approved or disapproved equity participation units or passed upon the adequacy of the information this report."



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collections on pending litigation, and consulting services to other third party assisted living and nursing facilities regarding the licensing of the Rainmaker 1031 and TIC program packages on a non-exclusive proprietary basis in areas wherein Rainmaker will not be seeking to establish operations in the near future and pre-need sales of TIC packages."

Two phone calls²⁴ confirmed that Rainmaker is not licensed to lend money (bridge loans as stated in the above quote) in New York or California. Moreover, and admittedly this is not my field of expertise, I am not aware of any "government security" that currently offers a guaranteed 25% annual return. In no way is this a concession that if the assisted living facilities were up and running that this would be exempt from securities laws. As attorney Lloyd²⁵ notes in his report on the Rainmaker investment opportunity²⁶: **"Based on the characteristics of reliance on others to manage the investment and the public nature of the offering of partnership Units, the Units described in the Rainmaker website should be treated as a securities under both California and Federal securities laws."** From the blatant 60% returns stated on the web site to the LA Times ad soliciting new investors, this company appears to be offering an unregistered security publicly.²⁷

3. **Our public record search shows nothing owned by the Rainmaker conglomerate of companies.** Yet the company's "Important Notice to Members" uses language that clearly conveys the Kings Park Sunken Meadow property is owned by them, is operating and is at full capacity. On June 14, 2005 I contacted Ms. Palena Henigman (631-269-9286) at Sunken Meadow Adult Home. I confirmed with her in two separate conversations that the address of Sunken Meadow was 121-125 W. Main St., Kings Park, NY 11754-1607. She said they have 37 beds and that they are all filled, 36 to men and one to a woman. She then confirmed that Sunken Meadow Adult Home had not been sold or was not under "new management."

Our expert Carl Bryant then called Wendy Brown, Supervisor for Adult Health in Long Island Division (631-851-3090), and she indicated that there had been no change of ownership at the Sunken Meadow facility nor was there an application for a change of ownership in the process. This is in direct contradiction to the **"Important Notice to Members"** sent out by attorney Alireza Dilmaghani regarding this property: "The current bed space is fully booked and we expect to start TIC conversions (stands for tenants in common) in the next 30 to 60 days after our license is approved. In the interim we re operating under the previous owners license and have negotiated the right to do so with the

²⁴ Please see Addendum 12 where the report of these two phone calls is recorded

²⁵ Mr. Lloyd is a Harvard educated former partner of the law firm of Higgs, Fletcher and Mack in San Diego, California.

²⁶ For the complete report prepared by Mr. Lloyd, please see Addendum 2.

²⁷ On June 7, 2005, I contacted Karen Patterson, enforcement lawyer at the California Department of Corporations (916-322-6737) and she confirmed that the Rainmaker investment was not blue skied in the state of California



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previous owner for up to 12 months if necessary." But as stated above, Ms. Henigman contradicted this statement as does the public record title reports.

Additionally, in an official letter sent by the company and dated March 25th, 2005 and sent to our client, Sid F. Levine states: *"Also enclosed with the mailing you will find a copy for each partner of the Kings Point purchase agreement which is the new property we own in New York."* This appears to be in direct contradiction to what (1) the most recent title report on this address states that the property has not changed ownership (2) the current owner states (3) what the Adult Health organization in Long Island stated—specifically Rainmaker is not licensed nor is there a pending license.²⁸ Moreover, the impression from the web site, materials, and our client is: *"Rainmaker Entities are those Independent Living, Assisted Living, Adult Living, Life Care and Nursing Home Facilities which are now²⁹ or shall in the future be acquired and/or operated by Rainmaker entities..."* Clearly the notion Rainmaker gives the public is that they are currently running and operating some kind of facilities. The language is clear. In fact, Rainmaker states that these operating facilities: *"...are first class resort or home style facilities offering every amenity and every form of entertainment and activity."* Obviously they cannot be "first class facilities" if they do not exist.

4. **No licensing for nursing or assisted living in New York or Los Angeles where the company claims to be currently or imminently operating.** As our expert confirms: "Licensing and certification requirements for the State of New York are similar to those for the State of California. A license must be obtained to operate a skilled nursing facility (nursing home) or an assisted living facility (residential care facility for the elderly) in the State of New York. Skilled nursing facilities are licensed by the State of New York Department of Health Services, Division of Quality and Surveillance of Nursing Homes, Courthouse Corporate Center, Suite 5000, 320 Carleton Avenue, Central Islip, NY, 11722." He goes on to add, "Contact was made with the Department of Health Services, Division of Home and Community Based Care and the Division of Quality and Surveillance of Nursing Homes. Lynn Thornton at the Division of Home and Community Based Care was contacted at (518-408-1132) regarding assisted living facilities. Ms. Thornton stated there was no assisted living facilities owned or operated by Rainmaker Managed Living."

In searches conducted for California licensing, Mr. Bryant did not fair any better. He writes: "A licensed to operate an assisted living facility is obtained through the State of California, Department of Social Services, Community Care Licensing Division. A number of district offices for licensing assisted living facilities are located throughout the state. The district office responsible for licensing an assisted living facility in La Habra is located at 770 The City Drive, Suite 7100, Orange, California, 92868. The address provided for Rainmaker Managed Living is located in La Habra, California. The Department of Social Services

²⁸ See email from Carl Bryant dated June 14th in Addendum 13.

²⁹ Emphasis mine. Document found on the company official web site on the page entitled "Rainmaker Managed Living, Mortgage Group, 41505, I.I.C" with the subsection "Overall Objectives and Strategy."



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database for Orange County, California where La Habra is located indicates that there are 879 assisted living facilities for the elderly... Contact was made with both the Department of Health Services and the Department of Social Services. Fran Del Rio at the California Department of Health Services, Orange County district office was contacted at (714-456-0630) regarding skilled nursing facilities. Ms. Del Rio stated that there was no skilled nursing facility owned or operated by Rainmaker Managed Living. Susan Levine at Community Care Licensing for Orange County was contacted at (714-703-2840) regarding assisted living facilities. Ms. Levine stated there is no assisted living or residential care facilities for the elderly owned or operated by Rainmaker Managed Living.

5. **They are asking the elderly for \$250,000 up front in cash or equity from real estate to secure their living quarters on locations that the company does not yet own.** To their credit, Rainmaker discloses this to the elderly who are the potential buyers/residents by stating in their web site:

"Rainmaker Facilities offer a special selection package of studio suite amenities when the subscriber LCCM books a facility OPTION SUBSCRIPTION prior to the facility coming into the Rainmaker portfolio. Rainmaker will at times option properties and determine if the market supports the property purchase. These special option subscriptions are held in an attorneys trust account pending closing on the property. Upon closing the property transfers to Rainmaker and the subscriber who then takes possession. If the facility option is relinquished the subscriber may assign his or her subscription option to another operational facility, a future facility, future option purchase or elect to receive a FULL REFUND at the subscribers sole discretion. At this time, cash based TIC (Tenants in Common) ownership requires that you have cash available to pay for you unit subscription. The current cost of a unit is \$250,000.00 per person. Pre Need booking is encouraged which will save you 25 to 50 percent of the costs you will encounter if you book after the facility is completed. You pay \$250,000.00 that will be used to pay for your unit subscription in a Rainmaker Facility. You receive the same benefits as property subscribers under the same 121 month draw contract terms and conditions."³⁰

But the obvious question based on points one through four is: How can Rainmaker be entrusted to hold \$250,000 from elderly people in New York and California in advance? They do not even currently own or manage the Kings Park property, which investors rely upon and believe is the primary use of proceeds for their investment capital.

6. **No independent proof of profitability.** Our client has asked repeatedly for CPA prepared financial statements. He reports that the latest story is they will be ready "at the end of June." Investors were also promised proof of purchased properties in the form of "deeds" and

³⁰ Please see web site page entitled "Rainmaker Managed Living, LLC Cost Free Retirement" under "Rainmaker Cash Based F.I.C."



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at the time of the writing of this report, that has also not yet occurred. The Rainmaker web site is replete with warrants and representations about profitability, facilities operated, pro forma earnings and a solicitation of the elderly of up from cash in the sum of \$250,000. Research does not independently confirm these warrants and representations.

Admittedly, the presence of audited financial statements does not necessary prove a company is legitimate;³¹ the absence of CPA prepared financial statements is a red flag in almost every instance. Still, whether it be the governmental licensing agencies for assisted living facilities and nursing homes; the public record property title searches or CPA prepared financial statements to test things like sources and uses of cash; or the use of proceeds and profitability; the investor is left with nothing more than the word of the company's senior management.

7. **The appearance of a law firm promoting and being intimately involved with the investment is clearly intended to impute credibility to the investment.** From expressing an opinion on whether or not the investment in which they have a vested interest constitutes a security, the creation of the multiple LLC's seems to have the intent of bypassing the securities laws, the supposed identifying and purchasing of property, and the operating of the day to day operations. This association clearly imputes credibility to the deal and makes raising money even easier. People can conclude that 'a law firm is behind this deal—it must be legitimate.' There are repeated references to the Furman law firm throughout the web site and the investor materials.³² Attorney Lloyd does not overlook this imputation of credibility to the potential investor. He cites one instance of this conflict of interest and imputation of legitimacy by writing: "The partnership agreement states: 'The Equity participation program described herein is not considered a public offering or a private offering of securities or a limited partnership exempt from registration under and State or Federal securities act as the Equity participants who become co-owners of any rights to any property purchased, leased or lease-held by *Rainmaker Realty Partners* are co-owners with full control over any property purchased, leased or lease-held by *Rainmaker Realty Partners*.'³³ (Emphasis original). **This opinion is not being given by an independent lawyer or firm, it is being given by Dilmaghani, a lawyer acting as a principal in the matter. The opinion is designed to give assurance to the investor that the investment does not have to qualify under state or federal securities laws but it is based on a statement of facts that are not true.** The Equity participants are not "co-owners" and do not have "full control over any property purchased..." This is especially troubling considering the primary target for this investment

³¹ In the ZZZZ Best securities fraud case that I was convicted and imprisoned for perpetrating, we had audited financial statements and yet the company was a fraud.

³² For example, in the list of LLC members sent to our client, 67 member names are listed—all with the Furman Law Firm address listed as their contact information (116 West 23rd Street, Suite 500, New York, NY 10011). And these 67 names are not just of individuals; a pension fund (the Quest Group Private Investment Fund) and a company called Keystone Investments are also listed.

³³ Partnership Agreement, Registration with State or Federal Securities Agency.



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is the elderly. Unfortunately, they may be more inclined to believe the warrants and representations made by the company at face value because of the intimate involvement of a lawyer and a law firm.

Conclusion

It would appear that (and I could be wrong) Rainmaker is offering an unregistered security by unlicensed broker dealers to the general public through newspaper ads and a public web site offering worst case guaranteed returns of 25% annually and best case returns of 110% over three years using misrepresentation in what may be a "Ponzi" like structure. How can this type of ascertain be supported?

- (1) The industry in which they claim to be earning these kinds of margins does not normally and regularly produce them
- (2) We could not find evidence that they are operating any current nursing or assisted living facilities
- (3) We could not find evidence that they own any property and yet they offer "real estate security" to potential investors in both their Los Angeles Times investors wanted add and their web site²⁴
- (4) There is no evidence that Rainmaker holds the necessary licensing to operate these facilities even if they did own them (and it appears they do not)

As far as we can ascertain, Rainmaker is currently making their monthly interest payments to investors (at least to our client). It is highly likely, in my opinion, they are using new investor capital to pay off or keep current those who are already invested. Or worse yet, they are using money raised from the elderly who have bought into their \$250,000 assisted living facility program.

The easiest way for law enforcement to prove this is to subpoena the bank records of Rainmaker and confirm if their operations are consistently earning these high returns or if new investor money is the vehicle to generate these returns. The seven points above and the accompanying addendums are provided to give law enforcement probable cause to take the next step and subpoena the records. With the money of the elderly at stake, I would beg that this case be given a high priority.

²⁴ See web site section entitled: "Welcome to Rainmaker 1031 Exchange" where one of the added benefits of participation for investors is "The security of high Quality real estate investments in nationally recognized high growth areas including Southern California and New York City real estate." The newspaper add reads: "30 Year Old Successful Law firm Seeks Partners in 6 new Assisted Living RE developments. Hi-yield return, Inv Guar by Trust Deed \$50 min Call Mr. Green 310.831.7700"



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Respectfully submitted,

Barry Minkow
Co-Founder
Fraud Discovery Institute

Reviewed and Supervised by:

Juan Lopez
Licensed Private Investigator #18903

Cc: Mike Jones
Securities Bureau
New York Attorney General's Office
120 Broadway
New York, NY 10271



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ADDENDUM ONE REPORT OF EXPERT

June 10, 2005

Fraud Discovery Institute
Attn: Barry Minkow
9770 Carroll Center Road, Suite F
San Diego, CA 92126

Re: Rainmaker Managed Living, LLC

Dear Mr. Minkow:

As retained by the Fraud Discovery Institute, I have reviewed the website for Rainmaker Managed Living, LLC. Per our follow-up discussion, opinions and information were requested for three areas addressed on the website. These areas included (1) the expected rate of returns or profits for the long term care industry, (2) facility licensing requirements for the long term care industry, and (3) supply and demand for assisted living and skilled nursing facilities. Based upon the current data, I was requested to determine and offer opinions as to whether the information contained in the Rainmaker Managed Living website was consistent with the long term care industry.

Based on my background and experience the information contained in the Rainmaker Managed Living website is NOT consistent with the performance of long term care facilities. My background and experience consists of more than 25 years of experience in the health care industry. I have also worked as a health care regulator and trainer for regulators for the State of California and the Centers for Medicare and Medicaid Services (formally known as the Health Care Finance Administration). My experience also includes being a consultant for numerous health facilities and law firms. I currently provide consultation and educational opportunities to health care facilities for standards of care and regulatory compliance. I have been retained by law firms as a consultant and expert witness for more than 100 cases that specifically involved standards of care, and regulatory compliance, and the long term care continuum. The long term care continuum includes hospitals, assisted living facilities, skilled nursing facilities, hospices and home health agencies. As an expert witness, I have provided opinions and testimony as both a regulator and a care provider. A curriculum vitae is provided at the end of this report.

Based on my experience and available data for the long term care industry the Rainmaker Managed Living website contained information that was NOT consistent with the long term care



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industry. As detailed further in the attached report, in summary:

The guaranteed and expected rate of returns, 37% for the first year, 49% for the second year, and 60% for the third year and each consecutive year thereafter must be seriously questioned since the reported profit margins for the long term care industry is generally less than 10%.

There are no long term care facilities found to be owned or operated by Rainmaker Managed Living. Additionally, no Rainmaker Managed Living long term care facilities were found to be licensed, certified or both in the States of California or New York. Considering this information, the availability of long term care services must be questioned.

While the demand for the long term care industry is expected to grow with the changing demographics. The current demand stated by Rainmaker Managed Living website must be questioned due to the current vacancy rates in skilled nursing and assisted living facilities.

For these reasons the validity of data provided in the Rainmaker Managed Living website would be problematic and should be questioned for further explanation. Should need additional information or questions, please do not hesitate to contact me at (619) 441-7447.

Very truly yours,

GILBERT B. GILG



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Report on Skilled Nursing Facilities and Assisted Living Facilities

Prepared for the Fraud Discovery Institute

Carl Bryant, RN CLNC

CORNERSTONE MEDICAL LEGAL CONSULTING AND EDUCATION
2156 Calle Poco
El Cajon, CA 92019
(619) 441-7447
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June 10, 2005



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RATE OF RETURNS FOR SKILLED NURSING FACILITIES AND ASSISTED LIVING FACILITIES:

Information regarding profit margins for skilled nursing (nursing homes) facilities and assisted living (residential or board and Care) facilities was not readily available through the New York or California Department of Health Services, Federal Health and Human Services Centers for Medicare and Medicaid Services, or the National Investment Center. The corporate statistics for size and rankings were obtained from the American Health Care Association and the National Center for Assisted Living. Additionally, the profit margins were obtained from Reuters Stock Overview.

Manor Care, Genesis HealthCare Corporation, Extencare Health Services, National HealthCare Corporation are publicly traded corporations who were ranked in the 50 largest skilled nursing facility chains and the 30 largest assisted living chains reported profit margins between 4.11 to 7.77%. The average profit margin is 6.26%.

PROFIT MARGINS FOR CORPORATIONS WITH BOTH SNF AND ALF

CORPORATION	SNF RANKING	ALF RANKING	PROFIT MARGIN
Manor Care	1	8	+ 7.23
Genesis HealthCare Corporation	5	19	+ 4.11
Extencare Health Services	7	23	+ 5.92
National HealthCare Corporation	10	27	+ 7.77

Beverly Enterprises, Kindred Healthcare, Advocat are three nursing home chains ranked within the top 50 Skilled Nursing facilities but not in the top 30 Assisted Living Facility chains. These chains reported profit margins ranging from 1.94 to 4.73% with an average profit margin of 3.73%.

PROFIT MARGINS FOR CHAIN SNF CORPORATIONS

CORPORATION	SNF RANKING	PROFIT MARGIN
Beverly Enterprises	2	+ 1.94
Kindred Healthcare	3	+ 4.73
Advocat	19	+ 4.53



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Sunrise Senior Living, Emeritus Corporation, American Retirement Corporation are three assisted living chains ranked within the top 30 assisted living facility chains but not in the top 50 nursing home chains. These chains report profit margins ranging from - 11.66 to + 4.74% with an average profit margin of - 2.88%.

PROFIT MARGINS FOR CHAIN ALF CORPORATIONS

CORPORATION	ALF RANKING	PROFIT MARGIN
Sunrise Senior Living	1	+ 4.74
Emeritus Corporation	2	- 11.66
American Retirement Corporation	13	- 1.71

See attached exhibit table for additional information such as number of facilities, beds, and number of state locations for both skilled nursing facilities and assisted living facilities.

CALIFORNIA LICENSING AND CERTIFICATION:

A license must be obtained to operate a skilled nursing facility (nursing home) or an assisted living facility (residential care facility for the elderly) in the State of California. Skilled nursing facilities are licensed by the State of California Department of Health Services, Division of Licensing & Certification, P.O. Box 997413, Sacramento, California, 95899. In order for a skilled nursing facility to be eligible to receive Medicare and Medicaid funds the facility must be certified by the federal government. Certification is provided by the Federal Health and Human Services, Centers for Medicare and Medicaid Services through a contract with the State of California. Prior to receiving Medicare or Medicaid funds a skilled nursing facility must be licensed by the State of California. The data bases for both the Centers for Medicare & Medicaid Services and State of California Department of Health Services reports that there is 70 Licensed and Certified skilled nursing facilities in a ten (10) mile area of La Habra with a total 6,442 beds. The vacancy rate for these certified facilities is 14.9%, with 5,481 of the beds being occupied and 961 vacant beds. Additionally, these data bases do not indicate a skilled nursing facility exists at 200 W. Whittier Blvd., La Habra, CA, 90631.

A license to operate an assisted living facility is obtained through the State of California, Department of Social Services, Community Care Licensing Division. A number of district offices for licensing assisted living facilities are located throughout the state. The district office responsible for licensing an assisted living facility in La Habra is located at 770 The City Drive, Suite 7100, Orange, California, 92868. The address provided for Rainmaker Managed Living is located in La Habra, California. The Department of Social Services data base for



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Orange County, California where La Habra is located indicates that there are 879 assisted living facilities for the elderly. Additionally, La Habra is located near Los Angeles and San Bernardino Counties. Los Angeles County reports 1,408 while San Bernardino County reports 285 assisted living facilities for the elderly. The vacancy rates for assisted living facilities were not available.

Contact was made with both the Department of Health Services and the Department of Social Services. Fran Del Rio at the California Department of Health Services, Orange County district office was contacted at (714) 456-0630 regarding skilled nursing facilities. Ms. Del Rio stated that there was no skilled nursing facility owned or operated by Rainmaker Managed Living. Susan Levine at Community Care Licensing for Orange County was contacted at (714) 703-2840 regarding assisted living facilities. Ms. Levine stated there is no assistive living or residential care facilities for the elderly owned or operated by Rainmaker Managed Living.

NEW YORK LICENSING AND CERTIFICATION:

Licensing and certification requirements for the State of New York are similar to those for the State of California. A license must be obtained to operate a skilled nursing facility (nursing home) or an assisted living facility (residential care facility for the elderly) in the State of New York. Skilled nursing facilities are licensed by the State of New York Department of Health Services, Division of Quality and Surveillance of Nursing Homes, Courthouse Corporate Center, Suite 5000, 320 Carleton Avenue, Central Islip, NY, 11722. In order for a skilled nursing facility to be eligible to receive Medicare and Medicaid funds the facility must be certified by the federal government. Certification is provided by the Federal Health and Human Services, Centers for Medicare and Medicaid Services through a contract with the State of New York. Prior to receiving Medicare or Medicaid funds a skilled nursing facility must be licensed by the State of New York. The New York state data base indicates there are 44 skilled nursing facilities with a total of 8,657 beds in Suffolk County, New York. The vacancy rate according to this data base is 6% statewide. The data base for the Centers for Medicare & Medicaid Services and New York Department of Health Services reports that there is 15 Licensed and Certified skilled nursing facilities in a ten (10) mile area of Suffolk County, New York with a total 3,508 beds. According to this data base, the vacancy rate for these certified facilities is 3.1%, with 3,399 of the beds being occupied and 109 vacant beds. Additionally, these data bases do not indicate a skilled nursing facility exists at 125 W. Main St., Kings Park, New York, 11754.

A licensed to operate an assisted living facility is obtained through the New York State Department of Health Services, Division of Home and Community Based Care. A number of district offices for licensing assisted living facilities are located throughout the state. The district office responsible for licensing an assisted living facility in Suffolk County, New York is located at 3085 Veterans Memorial Highway, Ronkonkoma, New York, 11788. The address provided for Rainmaker Managed Living is located in Suffolk, New York. The data base for Suffolk County does not indicate the vacancy rate or the number of assisted living facilities located in that area.

Contact was made with the Department of Health Services, Division of Home and Community Based Care and the Division of Quality and Surveillance of Nursing Homes. Lynn Thornton at the Division of Home and Community Based Care was contacted at (518) 408-1132 regarding assisted living facilities. Ms. Thornton stated there was no assisted living facilities owned or operated by Rainmaker Managed Living. She also referred contact to the local office at



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(212) 417-4440. Carla Maston at the local office also verified that there were no assisted living facilities owned or operated by Rainmaker Managed Living. Contact was made with the Division of Quality and Surveillance of Nursing Homes at (518) 408-1267. Doris referred the call to Doug Reilly at (518) 408-1628 who was not available for verification of information regarding skilled nursing facilities in Suffolk County.

NATIONAL VACANCY RATES

The national vacancy rates were obtained from the American Health Care Association and the National Center for Assisted Living. The average vacancy rate for skilled nursing facilities (nursing homes) nationally is 13.2%. Thirty-four of the fifty largest nursing home chains reported vacancy rates that range from 1.3 to 32%. The average vacancy rate for assisted living facilities is 11.1%. Twenty-one of the thirty largest assisted living chains reported vacancy rates of 1 to 25.7%.

DEMAND FOR SERVICES:

A number of studies and reports have been made regarding care for the elderly. The Centers for Medicare and Medicaid Services released market updates on February 6, 2002 and May 20, 2003. The market update for 2002 indicated that several publicly held nursing facility companies were struggling to emerge from bankruptcy and that investors were hoping for stability within the industry based on growing demographics of the elderly population. This report indicated the average occupancy was 81%, a vacancy of 19%. Due to the changing demographics the demand is expected to increase the need for capacity, especially when the baby boomers start reaching retirement age 2010 -2015. The market update for 2003 indicated profit margins continued to decline after \$1 billion of federal Medicare add-on payment provisions. The decline in profit margins as a result of rising insurance cost and aggressive litigation have led to the exit of many nursing facility chains from states where liability costs are high. The report also indicated three chains had filed for bankruptcy in the last six months.

One such study conducted by the California Health Care Foundation projects that California residents age 65 and over will nearly double by 2025. This growth is a larger growth rate than any other state or the United States overall. This report further indicates fewer beds are being used because more Californians are able to live independently or receive care at home. This increased vacancy rate gives consumers greater choice in most areas of the state. Additionally, this report indicates that between 1999 and 2002, 160 California nursing homes filed for bankruptcy.



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EXHIBIT A:

COMPANY	# SNF/NF BEDS	# SNF/NF FACILITIES	# STATES WITH SNF/NF	# ASSISTIVE LIVING BEDS	# ASSISTIVE LIVING FACILITIES	# STATES WITH ASSISTIVE LIVING	PROFIT MARGIN (TTM) %
Manor Care	40,846	293	32	5,459	70	32	+ 7.23
Genesis HealthCare Corporation	23,814	194	13	2,138	23	n/a	+ 4.11
Extendicare Health Services	15,945	154	13	2,009	41	9	+ 5.92
National HealthCare Corporation	9,332	76	11	1,167	19	n/a	+ 7.77
Beverly Enterprises	39,435	373	26	n/a	n/a	n/a	+ 1.94
Kindred Healthcare	32,927	255	30	n/a	n/s	n/a	+ 4.73
Advocate	5,108	48	8	n/a	n/a	n/a	+ 4.53
Sunrise Senior Living	n/a	n/a	n/a	43,000	361	25	+ 4.74
Emeritus Corporation	n/a	n/a	n/a	18,200	174	33	- 11.66
American Retirement Corporation	n/a	n/a	n/a	3,004	33	14	- 1.71



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Fax (619) 441-2442
E-mail cbryant@cornerstonemedical.com

Curriculum Vitae for Carl Bryant, RN, CLNC

Professional Characteristics	Detail Oriented Professional Integrity Produce Excellent work products Committed Dependable
Professional Achievements	Registered Nurse Certified Legal Nurse Consultant National Certification as Investigator Trainer Certification Certification for Director of Staff Development for Nursing Homes
Licensure	California Board of Registered Nursing, Register Nurse, #400424 Active Board of Nurse Examiners for the State of Texas, Registered Nurse, #501635 Oklahoma Board of Nurse Registration and Nursing Education, Registered Nurse, #R0039890
Summary of qualifications	Provide quality consultant services to healthcare providers and/or attorney-clients with emphasis in the medical-legal aspects of healthcare by being an expert resource in the Licensing and Certification process, State and Federal regulations and policies and procedures. Provided training to providers, advocates, field, administrative, and headquarters staff on regulatory systems. Responsible for oversight of field staff and conducting on-site evaluations of health facilities to assure their compliance with state and federal laws and regulatory requirements. Healthcare management included performance of administrative and management duties such as fiscal planning of programs, budgeting, policies and procedures with evaluations. Personnel relations included interviewing, evaluating, training and staff development of employees. Performed administrative duties and management of staff while maintaining a high standard of quality by formulating, organizing and implementing policies and procedures for the Healthcare Financing Administration, Department of Health Services, a national firm and various facilities in accordance with federal and state regulations.
Professional experience	<p>12/7/99 – present CORNERSTONE MEDICAL LEGAL CONSULTING, El Cajon, California <u>Legal Nurse Consultant, President</u></p> <p>Owner and president of medical legal consulting firm that assists the plaintiff and defense attorney-clients and/or Health Care Providers by screening or investigating cases for merit while defining compliance to regulatory codes, professional practices and community standards. Screening and investigation include reviewing, identifying, summarizing and interpreting relevant regulations, medical records, facility policies and procedures and other documents as required.</p> <p>5/ 1/96 – 12/7/99 CALIFORNIA DEPARTMENT OF HEALTH SERVICES, Sacramento, California</p>


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- Health Facility Evaluator II -PRECEPTOR/INSTRUCTOR
Responsible for developing and conducting statewide training programs for healthcare providers, advocates, all field district office staff, regional administrative staff and headquarters staff. Expert resource for the survey and certification process through knowledge of Licensing and Certification process, State and Federal regulations, and program/departmental policies and procedures. Primary liaison to headquarters for identifying and responding to field training needs.
- 10/ 1/90 - 5/ 1/96 **CALIFORNIA DEPARTMENT OF HEALTH SERVICES.** San Diego, California
Health Facility Evaluator Nurse (HFEN)
Responsible for conducting on-site evaluations of health facilities to assure their compliance with state and federal laws and regulatory requirements. Such evaluations may include licensing/certification surveys, complaint and special incident investigations, as well as pre-licensing compliance review, and other special evaluations as necessary.
- 8/18/88 - 10/ 1/90 **AMERICAN CLAIMS EVALUATIONS, INC.,** Jericho, New York
Western Regional Operations Manager
Administrative position for a national third party medical insurance auditing firm. Responsible for 53 professional and 6 technical staff positions throughout the 13 western United States. Personnel management responsibilities included interviewing, evaluating, training and staff development. Analytical duties included fiscal planning of programs and budgeting with evaluations. Information was developed into reports with recommendations for the vice presidents, president, chief executive officer and chairman-of-the-board for submission to the public utilities commission.
- 7/20/86 - 8/18/88 **FAVORITE NURSES OF SAN DIEGO,** San Diego, California
Intensive Care & Emergency Room Registered Nurse
Responsibilities included performing as a Registered Nurse for hospital staffing purposes. Adaptability and flexibility in performing duties in area hospitals under direction of different management styles and personalities.
- 11/20/85 - 7/15/86 **HERMANN HOSPITAL, UNIVERSITY OF TEXAS MEDICAL CENTER,** Houston, Texas
Staff Nurse IV (Career Ladder 1-6)
Nurse manager, responsibilities included staff development in educational, clinical, and administration. Involved in budgeting, staffing and scheduling. Developed policies and procedures in a 1050-bed hospital. Evaluated and interviewed established and potential employees for 32-bed intensive care unit.
- 12/22/82 -10/1/85 **OKLAHOMA MEMORIAL HOSPITAL,** Oklahoma City, Oklahoma
Assistant Head Nurse
Assisted head nurse in unit operations of Intensive Care Unit with duties that included interviewing, recruiting, scheduling



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1-888-300-8307**ADDENDUM 2 REPORT OF TOM LLOYD, ESQ.****MEMORANDUM**

TO: Barry Minkow
 FROM: Franklin T. Lloyd
 DATE: June 13, 2005
 RE: Rainmaker Realty Partners/Rainmaker Managed Living, LLC

PURPOSE OF MEMORANDUM: FACTUAL BACKGROUND

The purpose of this Memorandum is to summarize my findings after reviewing documents supplied by you and a review of the contents of the "rainmakerlifecare.com" website (the "Rainmaker website"). Nothing in this Memorandum is intended as legal advice or a legal opinion.

DOCUMENTS REVIEWED

1. April 6, 2005, letter on Rainmaker Realty Group letterhead from Sidney F. Levine, "Project Manager for the Managing General Partner of Rainmaker Realty Group Alizera Dilmaghani, Esquire" to "Rainmaker Partner."
2. Purported Certificates for (i) 10 Units of Partnership Interest in Rainmaker Realty Partners, April 1, 2004, and (ii) 3 "Bonus" Units in Rainmaker Realty Partners, LLC (Non-IRA) to Erendira Cronkhite dated the same date.³⁵
3. "Partner Information and History Record" (undated but apparently accompanying Item 1) showing regular and bonus units issued to Ms. Cronkhite, as follows:

Issuer	Issuee	Date	Units
Rainmaker Realty Partners, April 1, 2004	Erendira Cronkhite	11/05/04	25
Rainmaker Realty Partners, LLC, April 1, 2004	Erendira Cronkhite	11/05/04	3
Rainmaker Realty Partners, April 1, 2004	Erendira Cronkhite	12/17/04	25
Rainmaker Realty Partners, LLC, April 1, 2004	Erendira Cronkhite	12/17/04	5
Rainmaker Realty Partners, April 1, 2004	Erendira Cronkhite	01/31/05	50

³⁵ These certificates are quite confusing. The title at the top is "Rainmaker Real Estate Partners, an operating unit of Rainmaker Managed Living LLC." This language would imply that the partnership was owned, organized, or managed by the LLC. Most of the certificate describes characteristics of something called "Rainmaker Realty Partners LLC, April 1, 2004." There is no LLC with this name formed in the State of New York according to the New York Department of State website. The "bonus" certificate purports to represent Units in Rainmaker Realty Partners LLC, April 1, 2004, but, as noted above, no such entity seems to have been formed in the State of New York.



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Rainmaker Realty Partners, LLC, April 1, 2004	Erendira Cronkhite	01/31/05	5
Rainmaker Realty Partners, April 1, 2004	Erendira Cronkhite	04/01/05	10
Rainmaker Realty Partners, LLC, April 1, 2004 ³⁶	Erendira Cronkhite	04/01/05	7
Total Units in partnership			110
Total Bonus Units in LLC			17

4. "Important Notice to Members," dated March 25, 2005, from Alireza Dilmaghani, Esq. of Rainmaker Realty Group giving notice of the purchase of "Rainmaker Kings Park."³⁷ The document included only page 1 of the contract of sale plus a 7 page rider (including parcel descriptions) with copies of Items 5 through 7, below, attached.
5. Eight Certificates issued by the Smithtown Building Department with respect properties identified only by lot numbers, some of which are illegible.
6. October 17, 2002, Certificate of Zoning Certificate of Occupancy issued by the Town of Smithtown relating to change from single family residence to a non-conforming use for Sunken Meadow Adult Home, 121-125 West Main Street – maximum 37 beds - issued to S.M.A.H. Corp.
7. List of Rainmaker Managed Living LLC, Members of Record as of March 23, 2005.
8. 14 page section of rainmaker lifecare website entitled "Welcome to Rainmaker" which describes itself as a "report" and which recites that it is the sole agreement among the partners (Partnership Agreement).

In addition to the written documents, I did a "drive-by" of the Sunken Meadows facility at 121-125 Main Street, Smithtown. I also searched the New York Department of Health licenses for Managed Care for the Rainmaker, Kings Park, and Sunken Meadow names; and I checked the New York Department of State website for entities named in the Documents Reviewed.

FINDINGS

³⁶ Units in Rainmaker Realty Partners, LLC, April 1, 2004, are described as "bonus Units" but seem to be treated as the same as Units in the partnership. See, undated "Partner Information and History Record" which purports to be a summary of Ms. Cronkhite's investment status. There seems to be no such entity as Rainmaker Realty Partners, LLC, April 1, 2004. (See, FINDINGS, Entities, paragraph 9.)

³⁷ The material which I received included only page one of the purchase contract from S.M.A.H. Corp., Seller, and Rainmaker Managed Living, LLC, as Purchaser, plus a six page document entitled "Rider to Contract of Sale Dated the [blank] Day of March, 2005, with a parcel schedule attached



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Entities.

There is one person of interest and are ten names of entities or possible entities mentioned in the documents reviewed:

1. Alireza Dilmaghani, Esq. Dilmaghani and his lawfirm, the Furman Law Firm, appear to be the pivot point for all the Rainmaker entities. Dilmaghani is the manager³⁸ of Rainmaker Managed Living LLC. Dilmaghani appears to be giving key legal advice on securities and other legal issues as the "in-house" law firm of the "Rainmaker Realty Group" (FINDINGS, Entities, Item 6). Because of his ubiquitous role in the Rainmaker operations, Dilmaghani has the role of "Promoter" with respect Rainmaker fund raising activities.
2. Rainmaker Managed Living, LLC. This entity seems to be the key entity in the Dilmaghani business structure. He is the "managing partner for the Rainmaker programs" according to the "Welcome to Rainmaker" web page; and the "managing member" of Rainmaker Managed Living LLC according to the signature page of the Rider to Contract of Sale (Documents Reviewed, Item 4).
3. Rainmaker Realty. Use of this name is explained in the partnership agreement in the section entitled "Construction of this Document." There it states that this will be the d.b.a. of the Rainmaker Realty Partners (presumably all Rainmaker partnerships) "...in association with Rainmaker Managed Living, LLC...." But this name also seems to be used as a shorter reference to Rainmaker Realty LLC. See, FINDINGS, Entities, Item 4.
4. Rainmaker Realty LLC. This entity may sometimes be referred to as Rainmaker Realty. is mentioned in the partnership agreement as the entity offering the Rainmaker investment. It seems logical that the reference to Rainmaker Realty is a reference to Rainmaker Realty, LLC rather than a reference to all the Rainmaker partnerships. Undoubtedly this business is an affiliate of the Promoter. It appears to be the entity licensed with the New York Department of State as a real estate broker under the name "Rainmaker Realty LLC" of which Dilmaghani is the person holding the real estate license. This entity does not appear as a licensee in the California Department of Real Estate website.
5. Rainmaker Realty Partners I, April 1, 2004, NYCAL. The usages in the Rainmaker website and other documents do not seem to be tightly controlled. There are many references to "Rainmaker Realty Partners, April 1, 2004"³⁹ and a few references to

³⁸ He is referred to as the Managing General Partner of Rainmaker Realty Partners, April 1, 2004, in the Levine letter (Documents Reviewed, Item 1); and he is referred to as the Managing Member of Rainmaker Managed Living LLC in the signature page of the Rider to the Sales Contract (Documents Reviewed, Item 4).

³⁹ Oddly, perhaps mistakenly, in the signature section of Item 1 of the Documents Covered, this "partnership" is



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"Rainmaker Realty Partners, April 1, 2004, NYCAL." It seems likely that these are intended to refer to the same entity and that is the entity in which Ms. Cronkhite has invested; but this cannot be proved from the Documents Reviewed. This partnership and others like it are the entities in which partnership Units are being offered on the Rainmaker website.

There are many references to "Rainmaker Realty Partners." It is not clear to what this refers. In the section of the partnership agreement entitled "Registration with State or Federal Securities Agency" this name appears to refer to the partners of the partnerships being offered by Rainmaker rather than to a specific partnership or series of partnerships. This section describes Rainmaker Realty Partners as "specialized highbred [sic] general partnerships" (Welcome to Rainmaker, Rainmaker website). In that same page of the website, in a section entitled "Why Invest with Rainmaker Realty Partners," Rainmaker Realty Partners is described as having the duty to locate and inspect properties and assign its professional management team to handle all the financial and legal concerns as if it were a single entity. In the same section it is also described as guaranteeing a 25% annual rate of return to be paid monthly as if it were separate from the partnership in which interests are being offered. In the same section, it is described as offering the opportunity for an investor to become part of a "safe and secure equity participation ownership interest in New York City⁴⁰ and Southern California commercial and residential real estate...." Whether "Rainmaker Realty Partners" is a collective reference to the individual Rainmaker partners or a collective reference to the Rainmaker partnerships seems to depend on the context in which the words are used.

It appears that the partnership involved in the investment being offered by the website is in "Rainmaker Realty Partners I, April 1, 2004 NYCAL."⁴¹ and that it is variously referred to as "Rainmaker Realty Partners, April 1, 2004, and "Rainmaker 4/1/04." It further appears that Rainmaker I has 8 series' of securities one of which is Rainmaker Managed Living, LLC an entity apparently designed to meet the investment requirements of IRA and Keogh accounts where the general partnership would not. There is no clear discussion of how these series work

referred to as an "a.k.a." of Rainmaker Managed Living LLC. Normally an a.k.a. is a fictitious name. This is the only reference that indicates that the partnership is not real.

⁴⁰ Nothing in the documents reviewed indicates that the Partnership has any investment in New York City real estate. The Sunken Meadows/Kings Park project is in Suffolk County, not in New York City. An odd thing about the description of the Partnership is that it does not seem to be in any way limited to assisted living properties. See "Rainmaker Realty Partners Overall Objectives and Strategy, Investment Strategies" in the partnership agreement.

⁴¹ The Sunken Meadow/Kings Park property referred to in Item 4 of the items reviewed is purchased by Rainmaker Managed Living LLC. In the covering letter in that same Item 4, Dilmaghani describes the partners on the attached list as "...owners of the facility [Kings Park] under the Rainmaker 4/1/04 & LLC umbrella." Rainmaker 4/1/04 appears to be a reference to Rainmaker Realty Partners I, April 1, 2004, NYCAL. This seems to confirm that the ownership of an interest in that partnership is an indirect ownership through the Rainmaker umbrella. It also appears that, although the formal name of the partnership contains a "I" this designation is sometimes left off in a shortened reference to the same partnership.



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or inter-relate but they are treated as one investment when the partnership agreement states to investors that "...you will receive income from all eight (8) series of the April 1, 2004, programs."⁴²

The partnership agreement for Rainmaker Realty Partners I, April 1, 2004, NYCAL begins with the section entitled "Rainmaker Realty Partners I, Equity Participation Program, Assisted & Adult Living Facilities" found on the Welcome to Rainmaker page of the Rainmaker website. This section of the website is acknowledged in the signature page to the partnership agreement to constitute the entire partnership agreement among the parties.

In this agreement, the scope of the investment activity of the partnership is described with these words: "...seeks to acquire and operate commercial adult managed living, assisted living and adult living properties and, including without limitation, office buildings, shopping centers, business and industrial parks and other commercial and industrial properties, or businesses through outright purchase or leasehold" and the Partnership can "...originate or acquire interests in mortgage loans, generally on the same types of properties it might otherwise buy. These mortgage loans may pay fixed or variable interest rates." No standards are offered as to when these investments may be made in lieu of the stated investment purpose of the Partnership.

6. Rainmaker Realty Group. This is the name under which agents of Rainmaker Managed Living LLC and Rainmaker Realty Partners I, April 1, 2004, NYCAL sent the letters described in Documents Reviewed, Items 1 and 4. I found no other reference to this name⁴³ as an entity and have assumed that it is not an entity but is intended to subsume all Rainmaker partnerships and LLCs operated under the auspices of Dilmaghani and the Furman law firm.
7. Rainmaker LLC. A reference to this entity is found in the "Welcome to Rainmaker" page of the website in the next to the last paragraph of the opening statement. It is referred to as "Rainmaker LLC, A limited liability corporation [sic]" an entity "...which controls the general partnership and fully shields you from all liability concerns" and the entity through which the prospective investor receives "risk free participation." This is assumed to be a sloppy reference to Rainmaker Managed Living LLC which is identified as the managing partner in the section of the Agreement entitled "Who is the Managing Partner?"
8. Rainmaker Real Estate Partners. The only place where I have found this name is on the certificates of partnership Units (Documents Reviewed, Item 2). This name may or may not refer to an entity different from Rainmaker Realty Partners, April 1, 2004.

⁴² Rainmaker Realty Partners I, April 1, 2004, NYCAL partnership agreement section entitled "The Partnership."

⁴³ A New York registration of an LLC under the name Rainmaker Group, LLC does not appear to be a related entity. It was formed August 8, 2001, and has an address of 170 Main Street, Farmingdale, NY 11735. No agent for service of process is given for it in the Department of State records.



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9. Rainmaker Realty Partners, LLC, April 1, 2004. No entity having this name (with or without the reference to April 1, 2004) is registered in New York as a limited liability company. This entity name appears only on the "bonus" certificates issued to Ms. Cronkhite. (Documents Reviewed, Item 2). This is discussed further in footnote 1, above.
10. Rainmaker Programs. These words are used in the second sentence of the "Welcome to Rainmaker" web page. They appear to be a generic reference to the business of the Rainmaker partnerships and LLCs being managed by Dilmaghani.
11. Rainmaker Mortgage Program(s). This reference appears to refer to the activities of an entity described on the Rainmaker website as "Rainmaker Managed Living Mortgage Group, 41505, LLC." The website includes the operating agreement for this entity and describes it as having been formed under the laws of the state of New York to engage in mortgage lending to Rainmaker entities. The New York Department of State has no record of such an LLC having been formed.

Plan of Business

It appears that Dilmaghani has set up a web of entities with partnerships and LLCs designed, on the one hand, to raise equity capital from investors to purchase and operate managed and assisted living arrangements and other real estate investments and, on the other hand, to provide services to the entities raising capital. In certificates signed by Mr. Levine, Rainmaker Real Estate Partners (an entity that does not seem to exist) certifies that Ms. Cronkhite is an investor in Rainmaker Realty Partners, April 1, 2004, an entity name different from the partnership name in the Rainmaker website; and, by virtue of "bonus Units" an owner of interests in Rainmaker Realty Partners LLC, April 1, 2004 (another entity that does not seem to exist).

According to the Rainmaker website, the reason that the Rainmaker approach is so much more profitable than the conventional adult home approach is because it is effectively condominiumizing adult living projects. Rainmaker proposes to subdivide its adult living facilities and sell them or lease them under long-term leases to inhabitants who will then own the facilities as tenants-in-common.⁴⁴ In this manner, it is claimed, the risk of the investment is shifted from the Rainmaker partners to the new tenants-in-common.⁴⁵

As to ownership of the partnership properties, the documents are contradictory:

1. In the section of the partnership agreement entitled "Overall Objectives and Strategy," the statement is made that the partnership " will generally buy

⁴⁴ See Rainmaker Projections section of the Welcome to Rainmaker page of the Rainmaker website.

⁴⁵ See Real Estate Investment Management section of the Partnership Agreement.



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direct ownership interests in existing or newly constructed income-producing properties...."

2. Later in the partnership agreement major section entitled "Security of Real Estate,"⁴⁶ one of the most confusing statements in the document is made in an attempt to explain how title to the property will be held and the partnership and partners protected. The statement first describes the process as "...one wherein either [sic] a trust is created with the existing partners name on the trust addendum and the trust controls the property during the lease term or until the property is closed." It isn't clear why a trust would be used just to purchase the property (that is not the procedure used in the documents relating to the purchase of the Sunken Meadow/Kings Point facility) and it is doubtful that is the only purpose of the trust arrangement because the next sentence states: "At time of closing or master lease inception the partnership is named as the owner or master lessee [lessor?] and the partners are named in an addendum U.C.C. filing or trust addendum as owners of the partnership shares." This sounds like the trust arrangement remains in effect and the interests of the partners are reflected in the trust agreement or an addendum or have a security interest to protect their interests filed under the UCC laws⁴⁷. This seems to be indirect ownership where title to the properties stays in trusts or other agents controlled by Dilmaghani and are at risk to the creditors of those entities.
3. In the section of the partnership agreement entitled "Security of Real Estate" there is a description of the six ways the partnership will obtain property. None of them involves using a trust or other third party holding title to the property for the partnership.

The offering assures that the investor will receive a 25% annual return from the outset (prior to receipt of revenue from the operations from purchased properties) from income generated from "...short term investments in real estate bridge loans, government securities, foreclosed rollovers, income from the operations of the Managing partners law firm, proceeds from collections on pending litigation, and consulting services to other third part assisted living and nursing facilities...."

The only transaction included in the Documents Reviewed is the purchase of the Sunken Meadows Adult Home property (referred to by Dilmaghani as "Rainmaker Kings Point"). Item 4 of the Documents Reviewed was sent to "All subscriber members of Rainmaker Realty Partners.

⁴⁶ This statement is repeated verbatim in a subsection of the partnership agreement also entitled "Security of Real Estate."

⁴⁷ It is hard to see how the partnership's investment in the property could be converted into personal property that could be protected by a UCC filing.



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April 1, 2005." Apparently it was sent to our client as a subscribing member. According to the certificates (Documents Reviewed, Item 2) our client has been a holder of Units since November 5, 2004. However, the list attached is a list of *members of Rainmaker Managed Living LLC* (emphasis added). Of course Ms. Cronkhite is not a member of that entity and is not included on the list of members attached to the Rider. There is no explanation in the cover letter of how Ms. Cronkhite has an ownership interest in the Sunken Meadow/Kings Point project since it is owned by the LLC and she has no interest in the LLC.

In summary, although the documentation is far from clear, it appears that investors other than IRA/Keogh investors are sold interests in a general partnership. This is done to attempt to avoid having the offers and sales of the interests to investors characterized as securities under the state and federal securities laws. IRA/Keogh investors are sold interests in Rainmaker Managed Living LLC but there is no explanation as to why this is not a security. To buttress the "not a security" argument, the partners are asked to vote on whether to purchase or not purchase each property proposed as a partnership investment by the managing general partner. But this seems to be the only instance in which the partners are even slightly involved in partnership affairs. But the general partnership, while arguably solving the security problems, leaves the investor with general liability. No investor wants general liability and it is unlikely the interests could be sold if the matter were left there. However, the promoter attempts to solve this problem by not having the partnership participate directly in the transactions but rather having it supply capital to an "ownership agent" like Rainmaker Managed Living LLC or a trust set up for the purpose that will enter into the purchase and undertake the obligations and risks of ownership, including any mortgage payments that may be incurred in connection with the purchase. This might solve the general liability problem but it does not provide a secure investment. The properties are in possession and control of an agent and subject to all the risks that kind of structuring bring.

CONCLUSIONS

Securities Matters

I cannot tell whether the partnership agreement on the website is the partnership agreement in which Ms. Cronkhite has purchased Units or whether the Rainmaker website accurately describes the representations that induced her to become an investor. However, as structured, the partnership interests described on the website for Rainmaker Realty Partners I, April 1, 2004, NYCAL do not actively participate in the management of the assets purchased and therefore the transaction is not materially different from placing the investor's money in the hands of a manager to invest and pay a return. In addition, the interests of all the partners in all the different partnership offerings contemplated by the partnership agreement are treated as investing in a single investment program.

The argument that the interests are general partnership interests and not securities is based in part on the assertion that the investors actively participate in the purchase of partnership assets because a majority of them have to vote whether to approve a prospective investment. Although



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I have not seen what is provided to partners when their vote is sought, if the presentation does not provide enough information for the investor to make an informed decision, having the right to vote is not meaningfully participating in management. As an attempt to avoid the partnership Units being treated as a security this effort fails.

Based on the characteristics of reliance on others to manage the investment and the public nature of the offering of partnership Units, the Units described in the Rainmaker website should be treated as a securities under both California and Federal securities laws. I do not know the blue sky law of New York well enough to know whether New York has a different rule.

Securities Fraud Matters

When offering and selling securities, it is a fraudulent act to make false statements. It is also a fraudulent act to omit to make a statement without which statements that are made will be misleading. Here the offering documents are filled with statements that are misleading and omissions which leave the statements made misleading. Some examples are:

1. The certificates issued to memorialize the investment in partnership Units are issued by a non-existent entity and provide for Units of interest in a non-existent entity.
2. The Rainmaker website, as a reason for investing, states: "The security of having your investment backed by multimillion dollar commercial real estate properties in the New York City and Southern California market *that are owned by your partnership.*" (Emphasis added)⁴⁸ It is clear from the offering documents that none of the property is actually owned by the partnership. In addition there is no evidence that the partnership has any property in New York City.
3. The Rainmaker website states, as a reason to believe an investment in the Units is safe, that: "You will find that the proven results of Rainmaker and its highly specialized highbred [sic] general partnerships are a safe and secure harbor for investment capital."⁴⁹ There is no track record provided from which to assess results of the Rainmaker business model. "Safe and secure" implies that there are no downside risks but from the offering documents, it appears that this safety and security is totally dependent upon the financial strength of Rainmaker Managed Care, LLC and the Furman law firm for which no financial information is provided.
4. The Rainmaker website states, as a reason to have confidence in the Rainmaker management team, that: "Rainmaker Realty Companies National Development Services team has experience conducting market research, site selection, and development work nationwide. We have working knowledge of available sites, local ordinances, and

⁴⁸ Welcome to Rainmaker page of Rainmaker website, introductory paragraphs.

⁴⁹ Welcome to Rainmaker page of Rainmaker website, introductory paragraphs.



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development standards, and have established key contacts and resources in all major cities in any of the fifty state and overseas." These kinds of broad assertions designed to provide an investor with confidence in the experience and success of the promoter require disclosure of track records and other factual materials from which these subjective evaluations can be evaluated by the investor. None are provided.

5. The partnership agreement states: "The Equity participation program described herein is not considered a public offering or a private offering of securities or a limited partnership exempt from registration under and State or Federal securities act as the Equity participants who become co-owners of any rights to any property purchased, leased or lease-held by *Rainmaker Realty Partners* are co-owners with full control over any property purchased, leased or lease-held by *Rainmaker Realty Partners*.⁵⁰ (Emphasis original). This opinion is not being given by an independent lawyer or firm, it is being given by Dilmaghani, a lawyer acting as a principal in the matter. The opinion is designed to give assurance to the investor that the investment does not have to qualify under state or federal securities laws but it is based on a statement of facts that are not true. The Equity participants are not "co-owners" and do not have "full control over any property purchased...."
6. The so-called "highbred [sic] general partnership" format utilized by the partnership involves substantial risk of loss of the property upon default of the agent in whose name the property is held. There is no discussion of this risk.
7. There are substantial related party transactions implied in transactions described in the website documents. There are no standards provided for related party transactions and no restrictions on them and no discussion of the risks to the investors capital and earnings that these kinds of self-dealing transactions involve.
8. All of the partnership's rights will be dependent upon the "trust" arrangements to be set up by Dilmaghani. There is no meaningful description of the terms of these "trusts."
9. One of the "carrots" offered to investors that makes the Dilmaghani business plan unique and favor for investors is converting existing Adult Living facilities into tenancy-in-common ownership by those who would otherwise be using the facilities for a fee. This is supposed to maximize values and transfer investment risk from the partnership to the co-tenants. There is no basis given to believe that the New York Department of Health will approve the conversion of adult living facilities to a tenants-in-common format. On the face of it, doing such a conversion would put on the residents, some or all of whom might be suffering cognitive impairment, a host of ownership problems and cooperative management problems that seem daunting. There are risks associated with the ability of

⁵⁰ Partnership Agreement. Registration with State or Federal Securities Agency.



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prospective inhabitants to pay the kinds of prices required for the Rainmaker tenants-in-common business model to be successful. Residents of these kinds of facilities are often impoverished and would be unable to purchase tenants-in-common interests. Those who are not impoverished usually continue to live in their own homes or apartments until they would no longer meet the criteria for the Rainmaker projects (which require relatively able residents in order to keep operating costs low). There should have been a substantial discussion of these considerations.

10. The Rainmaker website asserts how profitable operating adult living facilities can be. (See footnote 17.) No significant presentation is made about the risks to profitability of operating such facilities. There is no discussion of levels of profitability being experienced by others in the industry who are larger, better financed, and have been at it longer than Dilmaghani and no discussion of why it is credible that the Dilmaghani operation would provide the level of profitability claimed when, if it is achieved, would be better than any of its more established, more experienced, and better capitalized competitors.
11. The Sunken Meadow facility is described as "...a beautiful residential style facility..."⁵¹ In fact the facility is a well maintained but cobbled together combination of multiple single family residences and additions that have been converted into an adult living home. The New York Department of Health has licensed the Sunken Meadow facility for 37 beds. This is not the "100 bed facility" on which the partnership's operating profitability model is based.⁵²
12. The partnership projections of profitability are based on assertions of cost and profitability for which no factual basis adequate to assess whether the projections are credible is given. In addition, there is no discussion of the pool of prospects for the partnership properties and what they can afford and the risk that the proposed rate schedule cannot be met. The projections are also based on occupancy of 1,000 beds. There is no discussion of how difficult it will be to reach the 1,000 bed level, how difficult it will be to acquire facilities that are around 100 beds each, or what affect owning multiple smaller facilities like Sunken Meadows/Kings Park would have on profitability.
13. A guaranteed rate of return on an equity investment is necessarily dependent on the financial strength of the promissor and the promise is generally considered a fraud *per se*. Here there is no disclosure of the financial strength of any Rainmaker entity or the Furman law firm.

⁵¹ Documents Reviewed, Item 4.

⁵² Welcome to Rainmaker page of Rainmaker website, Rainmaker Projections.

ADDENDUM THREE KRITEMAN EMAILS

-----Original Message-----
From: Josh Kriteman [mailto:josh.kriteman@rainmakerrealty.com]
Sent: Sunday, June 05, 2005 9:26 PM
To: 'josh.kriteman@rainmakerrealty.com'; 'josh.kriteman@rainmakerrealty.com'
Subject: Help

My wife and I are small time investors who recently distributed a significant sum (for us) to a company by the name of Rainmaker Realty. They are an LLC based in New York that provides a signifacant return on invested assets (30%). They claim to purchase residential properties and convert them to nursing home facilities. We were promised copies of the deeds months ago and I have personally requested this information without success. Any help you could provide would be much appreciated.
Thanks.

Subj: **FW: Help**
 Date: 6/10/2005 1:23:57 PM Pacific Standard Time
 From: minkow@integrity.com
 To: mikecon2@mrk.com

-----Original Message-----

From: jkriteman@synergyconsulting.info
 [mailto:jkriteman@synergyconsulting.info]
 Sent: Monday, June 06, 2005 9:25 AM
 To: minkow@integrity.com
 Subject: RE: Help

Barry,

I have pasted an email that was sent back in April and I can FAX you the paperwork that we have received to date (approx. 30+ pages). What is your FAX number?

Dear Rainmaker Partner:

We have sent your April 1, 2005 interest payment early based upon the fact that Liz Checo our compliance manager who is in charge of sending out the checks, will not be in the New York City office on the 31st which is the usual mailing day.

Liz will be in LaHabra with our inspection team. Note: As usual all checks are dated the first of the month, in this case APRIL 1, 2005 be sure to deposit same on the appropriate date.

Also enclosed with the mailing you will find a copy for each partner of the Kings Point purchase agreement which is the new property we own in New York. You will see that the documents carry an addendum which identifies every partner of record as of March 23, 2005, which will be recorded on the deed. The Kings point purchase removes the Belle Harbor property from our portfolio as part of the exchange you previously approved. After reading the documents please e-mail your vote. All you need to do is say in your e-mail is KINGS POINT APPROVED or KINGS POINT REJECTED. I cannot close or apply for a license until you vote so please do so ASAP.

The Strawberry Hill property contained mechanical systems failures which resulted in our rejecting the facility as being to expensive to rehabilitate. Kings point was our second choice from the Strawberry hill search efforts and was purchased at very agreeable terms.

The St. Josephs Hospital facility continues in the mix, however it has LUST problems. LUST stands for LEAKING UNDERGROUND STORAGE TANKS. The facility also has asbestos tile on the floor and lead paint. These problems are not deal killers in and of themselves. It means that the \$15 Million price tag will have to be reduced by about \$2.5 million to cover all the repairs and E.P.A. problems.

We are also investigating a new facility in connecticut just up the road from Strawberry Hill. This is a fully operating facility and meets our needs in all aspects. When we get the paperwork I will then call for an E-Mail vote on this proposed purchase.

Friday, June 10, 2005 America Online: MRK CON 2

When I take on the task of investigating a new property I am careful to lead the team in a manner that protects our money. I look into every nook and cranny. Once I find the problems (Almost every old building has problems) I then make a decision. The process takes time but, I will not take on a facility if the plant and equipment or the numbers do not make sense from an investment standpoint.

The New Furman Law Offices are open in Long Beach. Address and telephone numbers for the new office may be found by going to the new one stop web site WWW.FURMANLAWNYC.COM the addresses for all Furman Offices appear on the first page to your right after the flash intro.

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Finally, the inspection team will be in La Habra on Thursday March 30, and Friday March 31, 2005. You are invited to tour the facility on Friday March 31, 2005 at 1:00PM.

The address for the facility is The Gardens at La Habra, 200 W. Whittier Blvd, La Habra California, 90631. To find the facility go to MAPQUEST.COM and input your address as well as the address above and your computer will plot the quickest route for you.

This time is tentative and may change as the current owners are concerned over a large group coming in. If the time changes we will let you know by e-mail.

In any event please do not disturb the residents while you are in the facility.

If you have any question please call me at 646-375-2348.

HAPPY PASSOVER and EASTER TO ALL OF YOU.

Thank you.
Sid Levine
Project Manager
For ALireza Dilmaghani
Managing Member/Partner.

Josh Kriteman
Synergy Consulting, LLC
310.264.6124

-----Original Message-----
From: Barry Minkow [mailto:minkow@integrity.com]
Sent: Monday, June 06, 2005 6:55 AM
To: jkriteman@synergyconsulting.info
Subject: RE: Help

Hey Josh;

Friday, June 10, 2005 America Online: MRK CON 2

I may be interested in your situation because I am currently looking into another company that buys and refurbishes houses at high returns. Do you have any paper work on this deal? Promised returns in writing, etc. Also, how many others have invested in it? Please let me know and thanks. My best to you
Barry

-----Original Message-----

From: Josh Kritekman [mailto:jkritekman@synergyconsulting.info]
Sent: Sunday, June 05, 2005 9:26 PM
To: info@frauddiscovery.net
Subject: Help

My wife and I are small time investors who recently distributed a significant sum (for us) to a company by the name of Rainmaker Realty. They are an LLC based in New York that provides a significant return on invested assets (30%). They claim to purchase residential properties and convert them to nursing home facilities. We were promised copies of the deeds months ago and I have personally requested this information without success. Any help you could provide would be much appreciated. Thanks.

200 Belle Harbor Residents, Lew Simon Sued For \$10 M

The Wave

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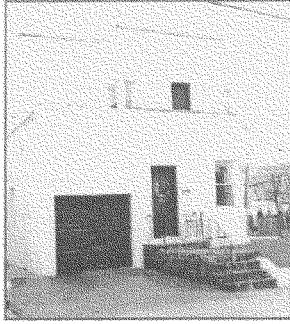
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200 Belle Harbor Residents, Lew Simon Sued For \$10 M



This house on the corner of Newport Avenue and Beach 134 Street is at the center of the controversy.

An elderly Belle Harbor property owner has filed a \$10 million lawsuit against 200 neighbors, a local politician and a list of city officials claiming they violated her civil rights. The Wave has learned.

Attorneys for Estelle Simon say the City of New York, the Department of Buildings, Democratic District Leader Lew M. Simon and 200 as yet unnamed Rockaway residents "engaged in conduct wherein they violated the plaintiff's rights," according to a 14-page suit filed in U.S. District Court in November.

District Leader Simon has dismissed the suit, which was assembled in such haste that "United States" is misspelled, calling it "frivolous." DOB spokesperson Jennifer Givner said Corporation Counsel was reviewing the complaint on behalf of the city.

At the center of the issue is the elderly woman's one-family home at 402 Beach 134 Street, which drew the attention of community members when signs seeking 40 investors at \$10,000 apiece for a condominium or elder-care facility at that location popped up on its front lawn in early 2004.

A group of Belle Harbor residents, who don't want to see a one-family home turned into a multi-unit structure, filed complaints with the DOB and sent petitions to elected officials. They also petitioned Community Board 14, since its members would be in the position of approving or denying any request for a variance.

Fliers calling for vigilance among neighbors - specifically citing the

Search

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What times do you think are reasonable for access to the boardwalk?

- 6 a.m. to 10 p.m.
- 6 a.m. to midnight
- no restrictions

Vote

HEFFER

LOT OF LAND FOR SALE

BELE

BERKSHIRE

ALL FILES

Subj: **FW: Help**
Date: 6/10/2005 1:23:54 PM Pacific Standard Time
From: minkow@integrity.com
To: mrkcon2@aol.com

-----Original Message-----

From: jkriteman@synergyconsulting.info
[mailto:jkriteman@synergyconsulting.info]
Sent: Monday, June 06, 2005 10:45 AM
To: minkow@integrity.com
Subject: RE: Help

My cell is 310.562.5432, work number is below, I'm at work now.

Josh Kriteman
Synergy Consulting, LLC
310.264.6124

-----Original Message-----

From: Barry Minkow [mailto:minkow@integrity.com]
Sent: Monday, June 06, 2005 10:42 AM
To: jkriteman@synergyconsulting.info
Subject: RE: Help

What is the best number to reach you at?

-----Original Message-----

From: jkriteman@synergyconsulting.info
[mailto:jkriteman@synergyconsulting.info]
Sent: Monday, June 06, 2005 9:25 AM
To: minkow@integrity.com
Subject: RE: Help

Barry,

I have pasted an email that was sent back in April and I can FAX you the paperwork that we have received to date (approx. 30+ pages). What is your FAX number?

Dear Rainmaker Partner:

We have sent your April 1, 2005 interest payment early based upon the fact that Liz Checo our compliance manager who is in charge of sending out the checks, will not be in the New York City office on the 31st which is the usual mailing day.

Liz will be in LaHabra with our inspection team. Note: As usual all checks are dated the first of the month, in this case APRIL 1, 2005 be sure to deposit same on the appropriate date.

Also enclosed with the mailing you will find a copy for each partner of the Kings Point purchase agreement which is the new property we own in New York. You will see that the documents carry an addendum which identifies every partner of record as of March 23, 2005, which will be recorded on the deed. The Kings point purchase removes the Belle Harbor

Friday, June 10, 2005 America Online: MRK CON 2

property from our portfolio as part of the exchange you previously approved. After reading the documents please e-mail your vote. All you need to do is say in your e-mail is KINGS POINT APPROVED or KINGS POINT REJECTED. I cannot close or apply for a license until you vote so please do so ASAP.

The Strawberry Hill property contained mechanical systems failures which resulted in our rejecting the facility as being to expensive to rehabilitate. Kings point was our second choice from the Strawberry hill search efforts and was purchased at very agreeable terms.

The St. Josephs Hospital facility continues in the mix, however it has LUST problems. LUST stands for LEAKING UNDERGROUND STORAGE TANKS. The facility also has asbestos tile on the floor and lead paint. These problems are not deal killers in and of themselves. It means that the \$15 Million price tag will have to be reduced by about \$2.5 million to cover all the repairs and E.P.A. problems.

We are also investigating a new facility in connecticut just up the road from Strawberry Hill. This is a fully operating facility and meets our needs in all aspects. When we get the paperwork I will then call for an E-Mail vote on this proposed purchase.

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In any event please do not disturb the residents while you are in the facility.

If you have any question please call me at 646-375-2348.

HAPPY PASSOVER and EASTER TO ALL OF YOU

Thank you.
Sid Levine
Project Manager
For ALireza Dilmaghani
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My best to you
Barry

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Sent via the WebMail system at synergyconsulting.info

Friday, June 10, 2005 America Online: MRK CON 2

Subj: **FW: Rainmaker**
 Date: 6/10/2005 1:23:45 PM Pacific Standard Time
 From: minkow@integrity.com
 To: mrkcon2@mrk.com

-----Original Message-----

From: jkriteman@synergyconsulting.info [mailto:jkriteman@synergyconsulting.info]
Sent: Monday, June 06, 2005 3:15 PM
To: minkow@integrity.com
Subject: Rainmaker

Barry,

Here is the info you requested on the broker:

James Joseph Conway
 100 Oceangate 14th floor
 Long Beach, California, 90802
 Telephone: (562)-216-5088

The address of the facility in New York is (it is supposedly titled to Rainmaker Managed Living, LLC):

121-125 West Main Street
 Kings Park, NY 11754

My wife is going to meet with the broker tomorrow afternoon in Long Beach, is there anything she should ask him specifically? She also contacted Sid Levine at Rainmaker, he indicated that the property in La Habra hasn't closed yet due to "1031 exchange deals/issues". When she asked about a financial statement he said we would have it by the end of June. Their new website is rainmakerlifecare.com; had some time at lunch and discovered this article as well: http://www.minkow.com/press/060605/060605_01.htm

Thanks again for your help.

Josh Kriteman
 Synergy Consulting, LLC
 310.264.6124

Subj: **FW: Rainmaker newspaper ad**
Date: 6/10/2005 1:24:33 PM Pacific Standard Time
From: minkow@integrity.com
To: mrkcon2@aol.com

-----Original Message-----

From: jkriteaman@synergyconsulting.info [mailto:jkriteaman@synergyconsulting.info]
Sent: Tuesday, June 07, 2005 11:18 AM
To: minkow@integrity.com
Subject: RE: Rainmaker newspaper ad

January 30, 2005/

Josh Kriteaman
Synergy Consulting, LLC
310.264.6124

-----Original Message-----

From: Barry Minkow [mailto:minkow@integrity.com]
Sent: Tuesday, June 07, 2005 11:13 AM
To: jkriteaman@synergyconsulting.info
Subject: RE: Rainmaker newspaper ad

One more thing. Do you have the date this ran?

-----Original Message-----

From: jkriteaman@synergyconsulting.info [mailto:jkriteaman@synergyconsulting.info]
Sent: Tuesday, June 07, 2005 10:32 AM
To: minkow@integrity.com
Subject: Rainmaker newspaper ad

Barry,

My wife found the ad! It was in the Los Angeles Times Classified section under Investment Opportunities. It reads:

30 Year Old Successful Law
firm Seeks Partners in 6 new
Assisted Living RE develop-
ments, Hi-yield return, Inv
Guar by TrustDeed \$50 min
Call Mr. Green 310.831.7700

Josh Kriteaman
Synergy Consulting, LLC
310.264.6124

Subj: **FW: Rainmaker newspaper ad**
 Date: 6/10/2005 1:24:18 PM Pacific Standard Time
 From: minkow@integrity.com
 To: minkow2@aol.com

-----Original Message-----

From: jkriteman@synergyconsulting.info [mailto:jkriteman@synergyconsulting.info]
Sent: Tuesday, June 07, 2005 11:30 AM
To: minkow@integrity.com
Subject: RE: Rainmaker newspaper ad

On the way.

Josh Kriteman
 Synergy Consulting, LLC
 310.264.6124

-----Original Message-----

From: Barry Minkow [mailto:minkow@integrity.com]
Sent: Tuesday, June 07, 2005 11:25 AM
To: jkriteman@synergyconsulting.info
Subject: RE: Rainmaker newspaper ad

Nice work Josh--now a copy by fax if you can ...

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Josh Kriteaman
Synergy Consulting, LLC
310.264.6124

ADDENDUM FOUR CORPORATE RECORDS

THIS DATA IS NOT AN OFFICIAL RECORD OF THE DEPARTMENT OF STATE OR THE STATE OF NEW YORK. LEXISNEXIS IS NOT AN EMPLOYEE OR AGENT OF THE DEPARTMENT OF STATE OR THE STATE OF NEW YORK. THE DEPARTMENT OF STATE DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, REGARDING THIS DATA.

NEW YORK DEPARTMENT OF STATE

Company Name: RAINMAKER MANAGED LIVING SMHC KINGS PARK LLC

Process Address:

THE LLC
116 W. 23RD STREET, STE. 500
NEW YORK, NY 10011

Type: DOMESTIC LIMITED LIABILITY COMPANY

Status: ACTIVE

Status Comment: INCORPORATION/APPLICATION FOR AUTHORITY/ARTICLES OF ORGANIZATION/NOTICE OF REGISTRATION

Standing: NOTE: GOOD STANDING STATUS CAN ONLY BE DETERMINED BY PERFORMING A SEARCH IN THE RECORDS OF BOTH THE DEPARTMENT OF STATE CORPORATION RECORDS AND THE DEPARTMENT OF TAX AND FRANCHISE.

Filing Date: 4/21/2005

Duration: PERPETUAL

County: NEW YORK

Date of Incorporation/Qualification: 4/21/2005

Registered Agent: ANTOINETTE M. WOOTEN, ESQ.

Registered Office:

116 W. 23RD STREET, STE. 500
NEW YORK, NY 10011

Corporation Number: 3194166

Microfilm Number: 050421000222

History:

Type: ARTICLES OF ORGANIZATION (DOMESTIC LIMITED LIABILITY COMPANY)

Effective Date: 4/21/2005

Microfilm Number: 050421000222

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STATE.

CALIFORNIA SECRETARY OF STATE, LTP/LLC RECORD

Company Name: RAINMAKER MANAGED LIVING LLC

Business Address:

100 VILLAGE SQUARE CROSSING 103
PALM BEACH GARDENS, FL 33410

Type: DOMESTIC FILING

Status: ACTIVE

Filing Date: 1/27/2005

State or Country of Incorporation: CALIFORNIA

Registered Agent: JJ CONWAY

Registered Office:

1129 W 2ND ST
SAN PEDRO, CA 90731

Members, Managers, Partners:

Management: ALL MEMBERS ARE MANAGERS

Filing Number: 200503110012

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OBTAINED THROUGH THE SACRAMENTO OFFICE OF THE CALIFORNIA SECRETARY OF
STATE.

CALIFORNIA SECRETARY OF STATE, LTP/LLC RECORD

Company Name: RAINMAKER MANAGED LIVING MORTGAGE GROUP 41505 LLC

Business Address:

116 W 23RD STREET STE 500
NEW YORK, NY 10011

Type: DOMESTIC FILING

Status: ACTIVE

Filing Date: 4/26/2005

State or Country of Incorporation: CALIFORNIA

Registered Agent: JAMES CONWAY

Registered Office:

1129 W 2ND STREET

SAN PEDRO, CA 90731

Members, Managers, Partners:

Management: ALL MEMBERS ARE MANAGERS

Filing Number: 200511910004

January 14, 2005, Friday

SECTION: DECISIONS; Pg. 25

LENGTH: 163 words

HEADLINE: Appellate Court Decision;
By Santucci, J.P.; Miller, Spolzino and Skelos, JJ.

BODY:

People, etc., res, v. Daniel Mathison, ap Motion by **Alireza Dilmaghani**, the attorney probating the will of Daniel C. Furman, to relieve The Furman Law Firm as the attorney for the appellant on an appeal from a judgment of the Supreme Court, Kings County, rendered September 9, 2003, and for the assignment of new counsel to represent the appellant on the appeal.

Upon the papers filed in support of the motion and the papers filed in relation thereto, it is

ORDERED that the branch of the motion which is to relieve The Furman Law Firm is denied as unnecessary [see CPLR 321(c)]; and it is further,

ORDERED that the branch of the motion which is for the assignment of new counsel is denied; and it is further,

ORDERED that on or before March 4, 2005, the appellant shall either retain new counsel and notify this court in writing that new counsel has been retained, or move for the assignment of counsel.

SANTUCCI, J.P., S. MILLER, SPOLZINO and SKELOS, JJ., concur.

LOAD-DATE: January 24, 2005

SUPREME COURT CIVIL SUITS FOR NEW YORK COUNTY, NEW YORK

CASE-NAME: KYLER, SEAN

v.

FURMAN, DANIEL C. (THE ESTATE OF) AS SOLE PROPRIETOR OF THE
DEFUNCT FURMAN LAW FIRM OF NYC AND **ALIREZA DILMAGHANI**, INDIV,
AS GEN. COUNSEL FOR THE NOW DEFUNCT FURMAN LAW FIRM OF NYC, AND
AS PROBATE COUNSEL FOR THE ESTATE OF DANIEL C. FURMAN AND L.
PAMELA CHECO, ET AL.

STATUS: ACTIVE

ACTION: OTHER

REQUEST FOR JUDICIAL INTERVENTION: 02/14/2005

INDEX-NUMBER: 4001862005

JUDGE: ACOSTA, ROLANDO T.

FW: Bar Associations

 This message has been scanned for known viruses.

From: Barry Minkow
To: mrkoon2@aol.com
Subject: FW: Bar Associations
Date: Sat, 11 Jun 2005 15:22:16 -0700

-----Original Message-----

From: Patterson, Joel [mailto:JTP@chenews.com]
 Sent: Wednesday, June 08, 2005 10:55 AM
 To: 'minkow@integrity.com'
 Subject: Bar Associations

I finally confirmed Alireza's NY Bar Association. I could not, however, find anything for Sydney Levine - but he's listed on the Furman website as an 'Agent for the Managing Partner.' He may not even be an attorney at all. Also, I could not find anything in NY for Antoinette Wooten - though I believe she's in the NJ Bar Association (NJ unfortunately doesn't post their members).

New York State Attorney Directory - Search Detail

as of 06/08/2005

Registration Number: 2916437

ALIREZA DILMAGHANI
 FURMAN LAW FIRM
 116 W 23RD ST FL 5TH

NEW YORK NY 10011

(646) 375-2268

Year Admitted in NY: 1997
 Appellate Division:
 Department of Admission:
 3
 Law School: BRIGHAM YOUNG U
 Registration Status: Currently registered
 Next Registration: Dec 2005

ADDENDUM FIVE
COPY OF NEWSPAPER AD

Att
7

" ATTENTION "

**30 Year Old Successful Law
firm Seeks Partners in 6 new
Assisted Living RE develop-
ments, Hi-yield return, Inv
Guar by TrustDeed \$50k min
Call Mr. Green 310-831-7700**

**Angels & financial backers
sought for start-up Christian
multi-media company.
More than 20 hours of
programming ready for
company's own satellite
broadcasting. 213 389 3139**

ADDENDUM SIX

WEB SITE

RAINMAKER MANAGED LIVING, LLC

[Home](#) [1031](#) [Independent Living](#) [Realty Partners](#) [Mortgage Partners](#)

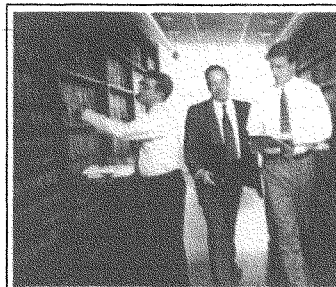
Rainmaker Managed Living LLC Corporate Legal Department

Hello, my name is Alireza Dilmaghani, I am an attorney licensed in the State of New York. I am General Counsel of The Rainmaker Managed Living, LLC, Corporate Legal Department.

Prior to joining Rainmaker Managed Living, LLC, I worked at the Furman Law Firm in New York City, which was operated by the late Daniel C. Furman, Esquire, Attorney at Law, who passed away on March 17, 2004. I was a staff attorney with the Furman Law Firm and assumed the role of interim General Counsel of the Furman Law Firm, for the purpose of administering the Furman Estate from the date of Mr. Furman's passing until November 16, 2004, when the Furman Law Firm ceased operations, as dictated by law due to Mr. Furman's death.

I administered the Furman estate and had ministerial control of the estates assets which included the Furman Law Firm and other legal and real estate entities wherein Mr. Furman had an interest. The estate now has a court appointed guardian ad litem who will have oversight regarding the heirs of the estate.

The name Furman Law Firm may no longer be utilized by operation of law as the name partner is deceased. The Furman Law Firm attorneys and their expertise have been absorbed by the corporate legal department of Rainmaker Managed Living, LLC, so that we will be in full compliance with the Rules of the Surrogate's Court as they apply to the estate and the ethics rules of the Supreme Court of the State of New York.



MAIN OFFICE NEW YORK
Rainmaker Managed Living
Headquarters Corporate Legal
Department
116 W. 23rd Street Corner
Avenue
Fifth Floor, Suite 500
New York, NY 10011
(646) 375-2269

NEW JERSEY OFFICE
Rainmaker Managed Living
New Jersey Corporate Legal
Department
744 Broad Street, 16th floor
Newark, New Jersey 07102
Telephone: (973) 735-2725

CALIFORNIA OFFICE
Rainmaker Managed Living
West Coast Corporate Legal
Department
100 Ocean Gate 14th floor
Long Beach, California, 90801
Telephone: (562)-216-5088

Rainmaker Managed Living LLC

The expertise and level of dedication previously exhibited by the former Furman Law Firm have not been diminished in any way, by my transition to corporate counsel at Rainmaker Managed Living, LLC. My staff and I are here to serve your needs with the same expertise, professionalism, dedication and careful consideration you have come to expect.

Please feel free to contact me at 646-375-2269 or E-mail me at RMLCORPLEGAL@aol.com. Thank you.

© Copyright 2005, Rainmaker Managed Living, LLC. All rights Reserved

<p align="center">Rainmaker Managed Living LLC [California] 1031 T.L.C. Program</p>	
<p>Welcome to Rainmaker 1031 Exchange.</p> <p>Rainmaker Managed Living LLC [California] is a 1031-T.L.C.[Tenancy in Common] program operated under the expertise and professional guidance of Rainmaker Managed Living LLC Managing Member Alireza Dilmaghani, Esquire, Attorney at Law, General Counsel of the Furman and Dilmaghani P.C. Law firm of New York City. The Furman and Dilmaghani P.C. law firms legal staff, manages all of the combined Rainmaker Programs nationally giving you a safety net never before experienced in any 1031 exchange program. Your hard earned assets are backed by the well earned reputation and professional license of a highly experienced and caring real estate attorney.</p> <p>Rainmaker Managed Living LLC [California] utilizes a T.L.C. concept for the financing and management of Independent Living, Assisted Living, Nursing Home, Retirement Communities and Life Care properties nationwide. The program allows any size exchange from a minimum of \$ 250,000.00 to \$25,000,000.00. Each exchange involves units in one of more facilities. These units are managed by Rainmaker Managed Living LLC under a master lease that pays you a minimum of 25% interest annually which you receive monthly in your mail box or if you so desire wired directly into your bank account.</p> <p>You will discover that the Rainmaker Managed Living LLC [California] 1031- T.L.C. program, when coupled with the guaranteed minimum annual return of 25% interest, paid monthly, allows you to safely put your money to work for you earning a secure, guaranteed rate of return that you will love.</p> <p>Utilizing the Rainmaker Managed Living LLC [California] 1031 – T.L.C. program you have an opportunity to join Rainmaker and share in the following benefits:</p>	<p>Home Power of Rainmaker 1031 Requirements 1031 Types Contact Us</p>

Rainmaker 1031 Exchange

- 25% Guaranteed Annual interest paid monthly.
- The security of high Quality real estate investments in nationally recognized high growth areas including Southern California & New York City real estate.
- Risk free participation through the Rainmaker Managed Living LLC. [California]
- The ability to cash out at anytime.

Strength of Rainmaker

Rainmaker Managed Living LLC (California) 1031 L.L.C. Program	
The Strength of Rainmaker	Home Power of Rainmaker 1031 Requirements 1031 Types Contact Us
<ul style="list-style-type: none"> ◦ From start to finish, the Rainmaker team is on your side. Long before you actually sell your current property the Rainmaker team is hard at work structuring custom designed packages to suit your needs. ◦ The Rainmaker team assists you in locating a qualified intermediary to hold your assets. (Intermediaries are also known as Accommodators or Facilitators). ◦ The Rainmaker team makes sure that your 1031 needs meet the requirements of IRC Section 1031 as set forth in Starker v. Commissioner (602 F.2d 1341 [1979]). ◦ The Rainmaker team assists you by offering various properties under what is commonly referred to as the Three property element so that you will have various properties available for your consideration and decision that suit your financial and tax needs. ◦ The IRS requires an investor to identify the replacement property(s) within 45 days from closing on the sale of a relinquished property. The 45 Day Identification Period begins on the closing date, and the replacement property must be properly identified in a letter signed by the Exchanger and received by the Qualified Intermediary. Closing must be within 180 days between the sale of the relinquished property and the purchase of the replacement property. THE 180 days also runs from the closing date thus the actual math is 45 days plus 135 days. ◦ Rainmaker state of the art expertise: ◦ Rainmaker's Foremost Acquisition Team: ◦ Rainmaker's potential for uncommon property performance and profit starting with the initial "buy." ◦ Rainmaker's Top flight acquisition team is composed of top shelf legal and real estate professionals with decades of disciplined integrity legendary 	

Strength of Rainmaker

value hunting expertise as property buyers.

- Rainmaker's war chest allows Rainmaker to be a fast , all cash buyer.
- Rainmaker is viewed by brokers and seller's as a "Buyer of Choice."
- Rainmaker's foremost Asset Management Team:
- Rainmaker's Extensive experience in advising clients in the buying and turning around of value-added properties in markets nationwide.
- Rainmaker's officers co-invest in each project.
- Rainmaker will never market a program unless the officers of Rainmaker prove the programs value by investing in the program.
- Rainmaker subscribers enjoy the benefits of all these ingredients, which very few if any of our peers has the ability to match.



Rainmaker 1031 Requirements

Rainmaker Manager of Living Trust (California) 1031 T.L.C. Program	
1031 Requirements	Home Power of Rainmaker 1031 Requirements 1031 Types Contact Us
<p>The Rainmaker Realty Partners Tenant in Common [T.L.C.] 1031 program is a form of holding title to real property. It allows the owner/owners to own an undivided fractional interest in the entire property. In addition, it has become the preferred investment vehicle for real property investors who wish to defer capital gains via a 1031 exchange and own real property without the management headaches.</p> <p>The following facts increase the popularity of 1031 Tenant in Common Investments:</p> <ul style="list-style-type: none"> ◦ The investment property marketplace is over 4 trillion dollars ◦ In California, 90% of all investment properties listed and sold over 3 million dollars were involved in a §1031 Tax-Deferred Exchange ◦ Most non-institutional investors, (individuals,) are not familiar with the strict provisions of the IRC §1031 ◦ Owner age shift: 170,000 reach the age of 65 daily <p>Disadvantages of Conventional Direct Ownership Exchange</p> <ul style="list-style-type: none"> ◦ Lower returns on less desirable properties ◦ Difficult to comply with § 1031 45-day rule ◦ Exchanger must locate property. ◦ Difficult to match § 1031 exchange debt and equity ◦ Investor must negotiate and arrange loan ◦ Expensive and time-consuming property management ◦ Cash flow, depreciation, and appreciation potential ◦ Ability to use the § 1031 exchange again ◦ Ability to refinance and distribute proceeds "tax free" 	

Rainmaker 1031 Requirements

Advantages of the Rainmaker 1031 Exchange

- Higher returns on institutional-quality properties
- Easy to comply with § 1031 45-day ID rules
- Rainmaker provides properties
- Easy to match § 1031 exchange debt and equity
- Rainmaker Prearranged financing
- Professional property management
- Cash flow, depreciation, and appreciation potential
- Ability to use the § 1031 exchange again
- Ability to refinance and distribute proceeds "tax free"

Rainmaker Managed Living LLC California Section 1031 Program	
1031 Types and Requirements In a delayed exchange under Section 1031, the property currently owned is called the "relinquished" property and must be exchanged for like-kind "replacement" property.	Home Power of Rainmaker 1031 Requirements 1031 Types Contact Us
Requirement One:	
Properties must be held for investment or used in a business. The IRS uses the term "like-kind" to describe the type of properties that qualify. This definition covers a vast variety of developed and undeveloped real estate. Properties which are clearly not like-kind are "held for sale." The relinquished and replacement properties need not have identical functions (i.e. both be apartment complexes or commercial strip centers).	
Requirement Two:	
The IRS requires an investor to identify the replacement property(s) within 45 days from closing on the sale of a relinquished property. The 45 Day Identification Period begins on the closing date, and the replacement property (s) must be properly identified in a letter signed by the Exchanger and received by the Qualified Intermediary. Closing must be within 180 days between the sale of the relinquished property and the purchase of the replacement property.	
1031 Types	
Simultaneous Exchange	
A Simultaneous Exchange occurs when the relinquished (sale) property and the replacement (acquired) property are transferred concurrently.	

Rainmaker Types

Delayed Exchange

The delayed exchange is the most universal exchange, safely providing Exchangers with flexibility the acquisition of replacement property or properties.

Build to Suit

The taxpayer can choose to make repairs or add structural improvements as part of the replacement property. While these types of exchanges can be complicated and cumbersome, they can alleviate cash-flow and exchange residual issues.

Reverse Build to Suit

As in a traditional reverse, the replacement property is acquired before the relinquished property is sold. The newly issued Revenue Procedure (REV. Proc.2000-37) provides a safe harbor for reverse and reverse build to suit exchanges entered into on or after September 15, 2000.

Contact Rainmaker

Rainmaker Managed Living LLC [California] w/ 1031 Program	
Contact Information	Home Power of Rainmaker 1031 Requirements 1031 Types Contact Us
Contact Us Name: <input type="text"/> Email: <input type="text"/> Comments: <input type="text"/> <input type="button" value="Submit"/>	
<hr/> Qualified Intermediaries	
<p>This is a partial list of qualified intermediaries. It is provided to assist you in your search for an intermediary. This list should not be considered a recommendation by Rainmaker Managed Living LLC [California] of any particular intermediary.</p> <p>IPX - Investment Property Exchange Services, Inc. 50 California Street, Suite 3550 San Francisco, CA 94111 Phone (415) 399-1590 Toll-Free (888) 771-1031 Fax (415) 399-1540</p> <p>1031 Corp., Inc. 1200 East High Street</p>	

Contact Rainmaker

Suite 217
 Pottstown, PA 19464
 Tel: 1-800-828-1031
 Fax: (610) 970-2258

Asset Preservation, Inc.
 4160 Douglas Blvd
 Granite Bay, CA 95746
 Toll Free: (800) 282-1031
 Phone: (916) 791-5991
 Fax: (916) 791-6003

Independent Exchange Services
 180 Montgomery Street, Suite 600
 San Francisco, CA 94104
 Phone: 800.939.1031

North American Exchange Company
 Corporate Headquarters
 2185 N. California Blvd., Suite 270
 Walnut Creek, CA 94596
 PH: 800.736.1031
 FAX: 800.382.9718

Timcor Financial Corporation
 11500 West Olympic Blvd., Suite 425
 Los Angeles, CA 90064
 (800)966-1031 - Toll Free
 (310) 479-1550 - Voice
 (310) 479-2005 - FAX

Diversified Exchange Corporation
 4250 Executive Square, Suite 400
 La Jolla, California 92037-9105
 Telephone (858) 658-8908
 Toll Free (866) 634-1031
 Facsimile (858) 658-8929

Contact Rainmaker

Southwest Exchange Corporation

2370 Corporate Circle Suite 160

Henderson, NV 89074

Phone 702-454-1031 or 800-827-9150

Fax 702-454-7262

Contact Rainmaker Managed Living, LLC


Rainmaker Managed Living, LLC

New York City Headquarters

116 W. 23rd St

Suite 500

New York, NY 10011

<p align="center">Rainmaker Independent Living Rainmaker Managed Living LLC Communities</p>	
<p align="center">Rainmaker Independent Living Benefits</p>	<p>Home Independent Living Facts Rainmaker T.I.C. L.L.C. Property Based TIC Cashed Based TIC Contact Us</p>
<ul style="list-style-type: none"> • Virtually Free Retirement if you own a home • Increase the value of your assets if you own property • Keep your property for your heirs • Travel to any Rainmaker Location • Rainmaker swap programs allow you to move to warmer climates • Rainmaker is a WIN-WIN program for everybody 	
<p align="center">Interested in cost free retirement?</p>	
	<p>All you need is a modest cash nest egg or your own home. Rainmaker TIC/LLC will show you how to retire to one of our independent living residences with the security of knowing your hard earned property assets will be preserved.</p>
<p>We manage your home for the benefit of your estate so that your loved ones will be able to inherit your assets instead of wasting those assets on a nursing home or assisted living center.</p>	
<p>Why let assisted living centers and nursing homes take your hard earned assets and freedom. Its your estate and your money. Take charge of it.</p>	
<p>Enjoy virtually free retirement with Rainmaker TIC/LLC.</p>	

Cost Free Retirement - Rainmaker Managed Living

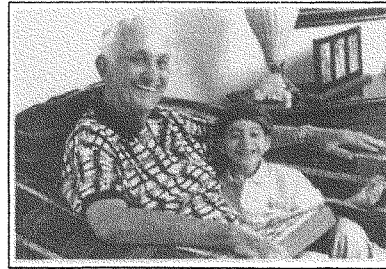
Call Rainmaker Independent Living today at 646-375-2064 and ask for
Seamus McNally or Sidney Levine to obtain all the answers to your questions
for free with no obligation.

Rainmaker Managed Living, LLC Cost Free Retirement	
Independent Living Facts	Home Independent Living Facts Rainmaker T.L.C. L.L.C.
<p>Today, about 1.5 million Americans live in our nation's 17,000 nursing homes and assisted living facilities. More than 90 percent of America's nursing home and assisted living residents are over 65. Three out of four nursing home and assisted living residents are women.</p> <p>The problem is most senior residents do not need the services of assisted living or nursing homes. what they need is INDEPENDENT LIVING CENTERS or a mixed use community that offers all three.</p> <p>Rainmaker communities offer independent living in a studio apartment with private bath and shared supervised kitchen facilities. If over time you need more care you automatically transfer to the nearest bed in a Rainmaker Assisted Living community. If you eventually need full supervision nursing care services, you will be automatically transferred to the nearest available bed in a Rainmaker Skilled Nursing facility. These upgrades in care are TOTALLY FREE OF ADDITIONAL CHARGE. Once you book a TIC studio suite thats it. Pay one time and never pay again for standard services. And if you use an existing property to fund your purchase you retire virtually for free and your family keeps your property for the estate.</p> <p>Rainmaker facilities are first class resort or home style facilities offering every amenity and every form of entertainment and activity.</p> <p>As Rainmaker communities come on line you save money by booking PRE-NEED. Pre-Need is where you book your studio suite while the facility is under construction for as little as \$ 250,000.00 for life time care. Studio suites booked after the facilities are completed cost 25 to 50 percent more.</p>	Property Based TIC Cashed Based TIC Contact Us

The following facts will show you that you may not need Assisted Living or Nursing care at this stage in your life. The best part is that should you ever develop the need for assisted or skilled full care you receive it for no additional charge. read the facts and judge for yourself where you desire to LIVE!

The typical nursing home and assisted living resident is a woman in her 80's, who shows mild forms of memory loss. Although physically healthy for her age, she needs help with about 4 of 5 activities of daily living (eating, dressing, bathing, walking, getting out of a bed or chair, and toileting).

According to recent reports the average cost of a nursing home stay in the United States is \$153 per day, (Rainmakers study shows the figure is actually \$181.24) but there are large variations from metropolitan area to metropolitan area, according to a recent market study released by



the MetLife Mature Market Institute. Manhattan is the costliest at \$295 per day (Rainmakers study shows the figure is actually \$345.50) for a private room while the Hibbing, Minnesota area is the lowest at \$90. The study found that the cost of a home health care aide was \$16 per hour nationally. Home health care is most expensive in Hartford, CT at \$24 per hour and least expensive in San Antonio, TX at \$12 per hour. The report includes average daily nursing home costs and hourly home health care aide costs for various cities throughout the country.

THE FIGURES STATED ABOVE ARE FOR "ASSISTED LIVING". THE FIGURES INCREASE GREATLY WHEN TOTAL NURSING CARE IS FACTORED IN.

Long Term Care

Long-term care is a range of custodial, social and medical services provided to those who can no longer live independently. They may need the care because of illness, accident, injury or aging.

There are two reasons to need long-term care (LTC):

1. You have cognitive impairment (mental impairment with a physical cause, such as Alzheimer's, Parkinson's, stroke or head injury) and need someone to supervise you; or
2. You need assistance with "Activities of Daily Living" (ADLs). There are six ADLs: Bathing, continence, dressing, eating, toileting, and transferring. Transferring means getting in and out of a bed or chair.

Long-term care is different from "acute care." Acute care is health care. It is received from a doctor or hospital because of illness, disease or injury. The goal is to cure. Health insurance pays for acute care.

The objective of LTC is "caring rather than curing." Most people needing long-term care need it for the rest of their lives.

95% of LTC is "custodial care." Custodial care includes assistance with Activities of Daily Living and supervision needed by those with cognitive impairment. Not all long-term care is custodial but all custodial care is long-term care.

Custodial care also includes homemaker services (cooking, cleaning), chores (fixing your house, mowing your lawn), companionship, help with medications and other services.

Non-custodial care is usually skilled care, provided by nurses and speech, physical and respiratory therapists.

Long-term care is provided in homes, assisted living facilities, adult day care facilities, hospices and nursing homes.

It is not just the elderly who need LTC: 40% who need assistance at home and 10% of nursing home residents are under 65.

Paying For Long Term Care

There are two ways to pay for LTC:

Independent Living Facts

1. Out of assets or income There are many problems with this strategy. You need to be rich to afford the costs. Even then, it puts you at risk of exhausting your funds. It puts your spouse at risk if there is not enough for both of you. It reduces what you can leave to your heirs.
2. Medicaid is a government welfare program that pays LTC expenses for poor people. If you are poor, this is your best option.

There are many downsides to Medicaid. Medicaid funded LTC is hard to find. Both spouses must be impoverished before Medicaid will pay. You will have your assets confiscated by the government to repay the expense of your retirement.

Population Facts

Nursing facility providers in the United States(1)

- * 1,813,665 total nursing facility beds;
- * 16,995 total nursing facilities;
- * 13 percent of facilities are hospital-based;
- * 52 percent of facilities are part of a chain ("Chain" facilities are owned or leased by a multi-facility organization. The remaining facilities are individually owned and operated);
- * 107 facility bed size (average);
- * 83 percent nursing facility occupancy rate.

Nursing facility ownership in the United States (1)

- * 66 percent for profit;
- * 27 percent not-for-profit;
- * 7 percent government.

Nursing facility direct care staff in the United States (1)

- * 53 total direct care staff (average);
- * 35 certified nurse assistants (average);
- * 11 licensed practical nurses (average);
- * 6 registered nurses (average).

Independent Living Facts

Nursing facility special care beds in the United States (1)

- * 105,066 total special care beds; including
- * 65,304 Alzheimer beds;
- * 3,013 AIDS beds;
- * 4,304 hospice beds;
- * 5,699 ventilator beds;
- * 26,746 other special care beds.

Elderly Population in the United States (4)

- * The elderly population, ages 65-74 is 7 percent (18,759,000 people) of the total population;
- * The elderly population, ages 75-84 is 4 percent (11,145,000 people) of the total population;
- * The elderly 85 and older are 1 percent (3,625,000 people) of the total population; and
- * The total elderly population, aged 65 and older is 13 percent of the total population.

Rainmaker Managed Living, LLC Cost Free Retirement	
Rainmaker T.I.C. LLC.	Home Independent Living Facts Rainmaker T.I.C. L.L.C.
<p>The Rainmaker T.I.C. program allows you to own your share of the facility you desire to live in. This is called Tenants In Common. [T.I.C.]</p>	Property Based TIC Cashed Based TIC Contact Us
<p>The Rainmaker T.I.C. program allows you to control the ever rising costs of retirement care by obviating the high cost of insurance and lawsuits based upon the unique nature of the Rainmaker Limited Liability Corporation. The [L.L.C.]</p>	
<p>How Does a Rainmaker Independent Living Facility Differ from other assisted living facilities?</p>	
<p>Independent living facilities are designed to assist elderly and retired persons who are able to care for themselves except for a few activities. Assisted living facilities are often deemed necessary when the person in question needs help preparing meals, bathing, dressing, performing household chores, is sometimes confused, or is experiencing memory problems. The problem is you have no control over your environment and you feel like a prisoner. You are stuck in one facility until you leave there or pass away. When you leave or pass on your family gets nothing. All the hundreds of thousands of dollars you paid are down the drain.</p>	
<p>Why are Rainmaker Retirement Communities Special?</p>	
<p>Over the years many people have had encountered various types of less than favorable treatment by different care facility operators. Rainmaker Managed Care, LLC designs all of the Rainmaker Independent Living, Assited Living and Skilled Nursing Facilities to be top shelf operations. Rainmaker facilities will</p>	

be the best of the best. When a family hears the word Rainmaker they know their loved one will be receiving the best of care. Our philosophy is simple. Lower profit margins created by pumping dollars back into the facility and amenities mean higher earnings as all our facilities will have waiting lists and the increased clientele will more than make up for the lost revenue used to create a top shelf facility.

The big difference is you are not a nameless faceless tenant. You are a part owner of the facility. You decide what happens on a day to day basis.

When you leave or pass on your Rainmaker TIC LLC share reverts back to Rainmaker. You are contractually guaranteed that you or your estate will be refunded the unused portions of your purchase price up to month number 121. Thereafter the return is -0- but all future care at any level of care is FREE.



As new Rainmaker facilities open up worldwide you can vacation at any facility for free on a space available basis and transfer to any facility on a space available basis. Pre Need booking saves you almost 50 percent.

Rainmaker is a win-win situation for everyone. You retire for free and your estate keeps your hard earned assets for your loved ones.

Property Based Tenants In Common

Rainmaker Managed Living, LLC Cost Free Retirement	
Rainmaker Property Based T.I.C.	Home Independent Living Facts Rainmaker T.I.C. L.L.C. Property Based TIC Cashed Based TIC Contact Us
<p>At this time property based TIC (Tenants in Common) ownership requires that you own existing property which can be pledged against the purchase of your Rainmaker Managed Living LLC unit. The current Pre Need cost of a studio unit is \$250,000.00 per person. After construction is completed costs may be as much as 25 to 50 percent higher.</p> <p>If you own a property with at least \$ 250,000.00 in equity Rainmaker will execute a management contract with you for the property. Rainmaker will then place a mortgage against the property for \$ 250,000.00 which will be used to pay for your unit subscription in a Rainmaker Facility.</p> <p>Rainmaker will then place a qualified tenant in your property and manage the property for as long as you hold your unit. The normal length of most loans are 10 years, with a 30 year amortization and a full balance ballon payment at the final payment.</p> <p>If the tenant defaults Rainmaker picks up the payments until a new tenant is found.</p> <p>NOTE: UNIT PRICES SUBJECT TO CHANGE WITHOUT NOTICE.</p>	

Rainmaker Managed Living, LLC Cost Free Retirement	
Rainmaker Cash Based T.I.C.	Home Independent Living Facts Rainmaker T.I.C. L.L.C.
<p>Rainmaker Facilities offer a special selection package of studio suite amenities when the subscriber LCCM books a facility OPTION SUBSCRIPTION prior to the facility coming into the Rainmaker portfolio. Rainmaker will at times option properties and determine if the market supports the property purchase.</p> <p>These special option subscriptions are held in an attorneys trust account pending closing on the property. Upon closing the property transfers to Rainmaker and the subscriber who then takes possession. If the facility option is relinquished the subscriber may assign his or her subscription option to another operational facility, a future facility, future option purchase or elect to receive a FULL REFUND at the subscribers sole discretion.</p> <p>At this time, cash based TIC (Tenants in Common) ownership requires that you have cash available to pay for you unit subscription. The curent cost of a unit is \$250,000.00 per person. Pre Need booking is encouraged which will save you 25 to 50 percent of the costs you will encounter if you book after the facility is completed.</p> <p>You pay \$ 250,000.00 which will be used to pay for your unit subscription in a Rainmaker Facility. You receive the same benefits as property subscribers under the same 121 month draw contract terms and conditions.</p> <p><i>UNIT PRICES SUBJECT TO CHANGE WITHOUT NOTICE.</i></p>	Property Based TIC Cashed Based TIC Contact Us

Contact Rainmaker

Rainmaker Managed Living, LLC Cost Free Retirement	
Contact Rainmaker Managed Living, LLC	Home Independent Living Facts Rainmaker T.I.C. L.L.C. Property Based TIC Cashed Based TIC Contact Us
Contact Us	
Name: <input type="text"/>	
Email: <input type="text"/>	
Comments: <input type="text"/>	
<input type="button" value="Submit"/>	
Rainmaker Managed Living LLC 116 W. 23rd Street Suite 500 New York, NY 10011 Telephone: (646)375-2348 Facsimile (646) 375-2235 E-Mail sidlevine2005@aol.com	

RAINMAKER REALTY PARTNERS - Assisted & Adult Living Facilities

Rainmaker Facts | Partnership Agreement | Subscription Agreement

Welcome to Rainmaker Managed Living LLC

As you read this program report you will see that the expertise and professional guidance of the Rainmaker Managed Living LLC Corporate legal staff, gives you a safety net never before experienced. You will discover that the proven results of Rainmaker, coupled with the guaranteed minimum annual return of 25% interest, paid monthly, allows you to safely put your money to work for you earning a secure, guaranteed rate of return that you will love.

After reading the Rainmaker Program Report you have a limited time opportunity to join Rainmaker and share in the following benefits.

- 25% Guaranteed Annual interest paid monthly.
- Anticipated Rate of Return for the first year of 37%
- Anticipated Rate of Return for the second year of 49%
- Anticipated Rate of Return for the third year and each year thereafter of 60%
- The security of having your investment backed by New York City real estate.
- Risk free participation through the Rainmaker LLC.
- The ability to redeem your shares at anytime after the partnerships closes.

I thank you for your time and consideration of Rainmaker. Please feel free to contact Sid Levine myself directly at 646-375-2348.

RAINMAKER REALTY PARTNERS I EQUITY PARTICIPATION PROGRAM ASSISTED & ADULT LIVING FACILITIES

APRIL 1, 2004

PROJECTIONS

**THE PROJECTIONS USED IN THIS STUDY ARE NOT TO BE
RELIED UPON BY A PROSPECTIVE PARTNER TO THE
RAINMAKER PROGRAM**

Nursing Home Facts

RAINMAKER REALTY PARTNERS - Assisted & Adult Living Facilities

Today, about 1.5 million Americans live in our nation's 17,000 nursing homes and assisted living facilities. More than 90 percent of America's nursing home and assisted living residents are over 65. 88 percent of America's nursing home and assisted living residents are white. Three out of four nursing home and assisted living residents are women.

The typical nursing home and assisted living resident is a woman in her 80's, who shows mild forms of memory loss and dementia. Although physically healthy for her age, she needs help with about 4 of the activities of daily living (eating, dressing, bathing, transferring, toileting).

Over her lifetime, she's saved about \$20,000 for retirement. The average cost of nursing home care is \$72,000 per year. She is, therefore, unable to afford the care she needs after six months and will be forced to rely on Medicaid.

To qualify, she must spend down her assets so they total no more than \$2,000. Two out of every three nursing home residents rely on Medicaid. Every 8 seconds, an American baby boomer (those born between 1946 and 1964) turns 50. By 2030, one in every five Americans will be a senior citizen. Americans 85 and older are the fastest growing segment of the national population. From 1960-1994, the 85+ age group increased by more than 274 percent. Americans 85 and older are the heaviest users of long-term health care services. Longevity is expected to rise for all ages. More than 15 percent of Pennsylvania nursing home residents are 65 or older. Two out of every five Americans will need long-term care at some point in their lives. In 1996, the average cost of a stay in a nursing home was \$41,000 per year, it is now \$72,000. Only one in four Americans can afford private nursing home care for one year.

The average stay in 1995 for a nursing home resident was 2.3 years. It has been predicted by 2007, the demand for nursing home beds will exceed the supply.

On average, 9.8 out of 10 beds in certified nursing homes and assisted living centers in America are occupied. In Pennsylvania, more than 98 percent of beds in certified nursing homes were occupied in March 2000.

In 1995, America's nursing homes were 87 percent full. Most nursing homes (66 percent) operated for profit and more than half are operated as part of a chain.

Here are the average daily nursing home costs per market for a private room:

Alaska (Statewide), AK	\$419.80	Lexington, KY	\$156.20	Akron, OH	\$176.00
Birmingham, AL	\$123.36	Louisville, KY	\$141.84	Cleveland, OH	\$184.00
Montgomery, AL	\$139.34	New Orleans, LA	\$128.65	Columbus, OH	\$182.00
Little Rock, AR	\$117.00	Shreveport, LA	\$95.56	Oklahoma City, OK	\$137.00
Phoenix, AZ	\$173.60	Boston, MA	\$232.10	Tulsa, OK	\$146.00
Tucson, AZ	\$188.61	Worcester, MA	\$263.00	Eugene, OR	\$198.00
Los Angeles, CA	\$162.27	Baltimore, MD	\$183.11	Portland, OR	\$158.00
San Diego, CA	\$194.46	Silver Spring, MD	\$176.40	Philadelphia, PA	\$204.00
San Francisco, CA	\$311.96	Brunswick, ME	\$211.60	Pittsburgh, PA	\$188.00
Colorado Springs, CO	\$151.80	Detroit, MI	\$136.97	Scranton, PA	\$165.00
Denver, CO	\$151.80	Grand Rapids, MI	\$160.80	Providence, RI	\$204.00
Hartford, CT	\$273.13	Minneapolis, MN	\$184.58	Charleston, SC	\$135.00
Stamford, CT	\$331.44	Saint Paul, MN	\$203.04	Columbia, SC	\$147.00
Washington, DC	\$230.60	Kansas City, MO	\$120.83	Dell Rapids, SD	\$127.00
Wilmington, DE	\$184.54	St. Louis, MO	\$133.21	Memphis, TN	\$158.00
Jacksonville, FL	\$150.60	Jackson, MS	\$124.01	Nashville, TN	\$182.00
Miami, FL	\$194.00	Billings, MT	\$144.00	Dallas, TX	\$146.00
Orlando, FL	\$152.80	Charlotte, NC	\$160.95	Fort Worth, TX	\$148.00
Alpharetta, GA	\$138.07	Raleigh, NC	\$149.40	Houston, TX	\$135.00

RAINMAKER REALTY PARTNERS - Assisted & Adult Living Facilities

Atlanta, GA	\$155.83	Fargo, ND	\$187.43	Salt Lake City, UT	\$137
Honolulu, HI	\$215.16	Omaha, NE	\$205.00	Arlington, VA	\$219
Des Moines, IA	\$224.80	Manchester, NH	\$207.20	Richmond, VA	\$176
Boise, ID	\$160.00	Bridgewater, NJ	\$222.00	Rutland, VT	\$197
Chicago, IL	\$171.53	Cherry Hill, NJ	\$248.94	Seattle, WA	\$185
Highland Park, IL	\$186.07	Albuquerque, NM	\$189.15	Spokane, WA	\$174
Peoria, IL	\$166.60	Las Vegas, NV	\$158.70	Madison, WI	\$184
Fort Wayne, IN	\$168.20	*New York, NY	\$345.50	Milwaukee, WI	\$188
Indianapolis, IN	\$164.75	Rochester, NY	\$234.82	Martinsburg, WV	\$164
Wichita, KS	\$127.43	Syracuse, NY	\$230.19	Worland, WY	\$141

AVERAGE: \$181.24 (\$5,618.44 Per Month)

*** RAINMAKER'S BASE OF OPERATIONS MARKET**

ElderWeb.com Newsletter August 23, 2000

The following is taken from the ElderWeb.Com newsletter a respected authority on elder care. You will see these figures are remarkably similar to the Rainmaker Study.

The average cost of a nursing home stay in the United States is \$153 per day, (Rainmakers study shows the figure is actually \$181.24) but there are large variations from metropolitan area to metropolitan area according to a recent market study released by the MetLife Mature Market Institute. Manhattan is the costliest at \$295 per day (Rainmakers study shows the figure is actually \$345.50) for a private room while the Hibbing, Minnesota area is the lowest at \$90. The study found that the cost of a home health care aide was \$16 per hour nationally. Home health care is most expensive in Hartford, CT at \$24 per hour and least expensive in San Antonio, TX at \$12 per hour. The report includes average daily nursing home costs and hourly home health care aide costs for various cities throughout the country.

RAINMAKER REALTY PARTNERS ASSISTED LIVING CENTER PROJECTIONS FOR THE RAINMAKER FACILITIES IN NEW YORK CITY. THESE ARE MINIMUM AMOUNTS:

Supervised Independence	RAINMAKER STANDARD PACKAGE "A"
\$4,500.00	
Minimal Assistance	RAINMAKER STANDARD PACKAGE "B"
\$4,750.00	
Moderate Assistance	RAINMAKER STANDARD PACKAGE "C"
\$5,000.00	
Extensive Assistance	RAINMAKER STANDARD PACKAGE "D"

<http://www.rainmakerlifecare.com/realtypartners/>

6/19/2000

RAINMAKER REALTY PARTNERS - Assisted & Adult Living Facilities

\$5,250.00

Total
Assistance **RAINMAKER STANDARD PACKAGE "E"**
\$5,500.00

THE FIGURES STATED ABOVE ARE FOR **?ASSISTED LIVING?**. THE FIGURES INCREASE GREATLY V
TOTAL NURSING CARE IS FACTORED IN.

Long-term care is a range of custodial, social and medical services provided to those who can no longer live independently. They may need the care because of illness, accident, injury or aging.

There are two reasons to need long-term care (LTC):

- 1) You have cognitive impairment (mental impairment with a physical cause, such as Alzheimer's, Parkinson's, stroke or head injury) and need someone to supervise you; or
- 2) You need assistance with "Activities of Daily Living" (ADLs). There are six ADLs: Bathing, continence, dressing, eating, toileting, and transferring. Transferring means getting in and out of a bed or chair.

Long-term care is different from "acute care." Acute care is health care. It is received from a doctor or hospital because of illness, disease or injury. The goal is to cure. Health insurance pays for acute care.

The objective of LTC is "caring rather than curing." Most people needing long-term care need it for the rest of their lives.

95% of LTC is "custodial care." Custodial care includes assistance with Activities of Daily Living and supervision needed by those with cognitive impairment. Not all long-term care is custodial but all custodial care is long-term care.

Custodial care also includes homemaker services (cooking, cleaning), chores (fixing your house, mowing your lawn), companionship, help with medications and other services.

Non-custodial care is usually skilled care, provided by nurses and speech, physical and respiratory therapists.

Long-term care is provided in homes, assisted living facilities, adult day care facilities, hospices and nursing homes.

It is not just the elderly who need LTC: 40% who need assistance at home and 10% of nursing home residents are under 65.

There are two ways to pay for LTC:

1. Out of assets or income

There are many problems with this strategy. You need to be rich to afford the costs. Even then, it puts you at risk of exhausting your funds. It puts your spouse at risk if there is not enough for both of you.

<http://www.rainmakerlifecare.com/realtypartners/>

6/10/2008

RAINMAKER REALTY PARTNERS - Assisted & Adult Living Facilities

reduces what you can leave to your heirs.

2. Medicaid

Medicaid is a government welfare program that pays LTC expenses for poor people. If you are poor, is your best option.

There are many downsides to Medicaid. Medicaid funded LTC is hard to find. Both spouses must be impoverished before Medicaid will pay.

Nursing facility providers in the United States(1)

- 1,813,665 total nursing facility beds;
- 16,995 total nursing facilities;
- 13 percent of facilities are hospital-based;
- 52 percent of facilities are part of a chain ("Chain" facilities are owned or leased by a multi-facility organization. The remaining facilities are individually owned and operated);
- 107 facility bed size (average);
- 83 percent nursing facility occupancy rate.

Nursing facility ownership in the United States (1)

- 66 percent for profit;
- 27 percent not-for-profit;
- 7 percent government.

Nursing facility direct care staff in the United States (1)

- 53 total direct care staff (average);
- 35 certified nurse assistants (average);
- 11 licensed practical nurses (average);
- 6 registered nurses (average).

Nursing facility reimbursement in the United States (1)

- 8 percent Medicare;
- **68 percent Medicaid;**
- 23 percent private pay.

Nursing facility special care beds in the United States (1)

- 105,066 total special care beds; including
- 65,304 Alzheimer beds;
- 3,013 AIDS beds;
- 4,304 hospice beds;
- 5,699 ventilator beds;

RAINMAKER REALTY PARTNERS - Assisted & Adult Living Facilities

- 26,746 other special care beds.

Elderly Population in the United States (4)

- The elderly population, ages 65-74 is 7 percent (18,759,000 people) of the total population;
- The elderly population, ages 75-84 is 4 percent (11,145,000 people) of the total population;
- The elderly 85 and older are 1 percent (3,625,000 people) of the total population; and
- The total elderly population, aged 65 and older is 13 percent of the total population.

WHAT IS RAINMAKER ASSISTED LIVING?

Rainmaker Assisted living facilities are for people needing assistance with Activities of Daily Living (ADLs) but wishing to live as independently as possible for as long as possible. Assisted living exists to bridge the gap between independent living and nursing homes. Residents in assisted living centers are not able to live by themselves but do not require constant care either. Assisted living facilities offer help with ADLs such as eating, bathing, dressing, laundry, housekeeping, and assistance with medications. Many facilities also have centers for medical care; however, the care offered may not be as intensive or available to residents as the care offered at a nursing home. Assisted living is not an alternative to a nursing home but an intermediate level of long-term care appropriate for many seniors.

Most assisted living facilities create a service plan for each individual resident upon admission. The service plan details the personalized services required by the resident and guaranteed by the facility. The plan is updated regularly to assure that the resident receives the appropriate care as his or her condition changes.

Rainmaker was created to fill the pressing need for ADLs specifically designed for medicare clients.

The term used for assisted living facilities differs across the country. Other common terms for these facilities include:

- **Residential care**
- **Personal care**
- **Adult congregate living care**
- **Board and care**
- **Domiciliary care**
- **Adult living facilities**
- **Supported care**
- **Enhanced care**
- **Community based retirement facilities**
- **Adult foster care**
- **Adult homes**
- **Sheltered housing**
- **Retirement residences**

Assisted living is the generic term used across the country.

RAINMAKER REALTY PARTNERS - Assisted & Adult Living Facilities

How Does a Rainmaker Assisted Living Facility Differ from Nursing Home?

Nursing homes are designed to care for very frail people that are not able to care for themselves and have numerous health care requirements. Assisted living facilities are designed to assist elderly people who are able to care for themselves except for a few activities. Assisted living facilities are often designed necessary when the person in question needs help preparing meals, bathing, dressing, performing household chores, is sometimes confused, or is experiencing memory problems.

Why are Rainmaker Retirement Communities Special?

Over the years many people have had encountered various types of less than favorable treatment by different care facility operators. Rainmaker designs all facilities to be a top shelf operations. Rainmaker facilities will be the best of the best. When a family hears the word Rainmaker they know their loved one will be receiving the best of care. Our philosophy is simple. Lower profit margins created by pumping dollars back into the facility and amenities mean higher earnings as all our facilities will have waiting and the increased clientele will more than make up for the lost revenue used to create a top shelf facility.

RAINMAKER COST BREAKDOWNS AND PROFIT PROJECTION

In this report you have read that average cost of a bed in New York, New York, is \$345.50 per client. New York city is RAINMAKERS BASE OF OPERATIONS MARKET.

It is the plan of Rainmaker realty partners to offer assisted living in facilities of less than 12 beds. Our Rainmaker Assisted Living centers will be in boutique style private homes or home style facilities of 12 to 25 clients.

Rainmaker will charge a minimum of \$ 4,500.00 per month. Contract medical care will also be provided. The average costs per month to service the client's needs is 65% (\$ 2,925.00) profit will be 35% (\$ 1,575.00) The return on the 12 bed facility will be (\$ 18,900.00) per month.

The partnership is based upon 100,000 square feet. We anticipate a minimum of 300 clients at that amount of square footage depending on the size of each boutique facility we locate. If the numbers are correct and we obtain 300 clients at a monthly profit rate of \$ 1,575.00 the return will be \$ 472,500.00 per month.

Interest of 25% will be paid monthly and quarterly distributions as described in the program report will be made pursuant to the amount of partners in the program.

Thank you for your consideration of Rainmaker Realty Partners.

Rainmaker Managed Living LLC

Introduction | Partnership Agreement | Subscription Agreement

RAINMAKER FACTS

Let's face it, real estate investing is very profitable, especially in the New York City real estate market. *Rainmaker Realty Partners* takes the headaches out of real estate ownership with a skilled staff of experts who do not make any money unless you make money.

Rainmaker Realty Partners invests primarily in real estate and real estate related assets in the five (5) boroughs of New York City and the tri-state area of New York, Connecticut, and New Jersey

Why invest with *Rainmaker Realty Partners*?

- Rainmaker Realty Partners locate and inspect the properties.
- Rainmaker Realty Partners professional management team handles all the financial and legal concerns.
- No mortgage payments and no managerial responsibilities.
- Long term capital growth from high value property in the New York City market.
- Rainmaker Realty Partners guarantees a minimum 25% annual rate of return.
- Rainmaker Realty Partners works to minimize risks and maximize profits.

Rainmaker Realty Partners seeks to obtain favorable returns for our partners by tapping into potential real estate opportunities. Record low interest rates and gains in the New York City real estate market have caused investment activity to blossom in 2003. Urban renewal has encouraged new construction and the renovation of existing real estate. The red hot Manhattan real estate market is expected to continue this positive trend into 2004, and beyond. Manhattan based *Rainmaker Realty Partners* knows how to tap this red hot real estate market!

Real estate investments are less volatile and risky than most common stocks and bonds, and they provide excellent portfolio diversification. Recent developments in the past three years resulted in a depressed market in Manhattan real estate. Now the Market is coming back strong. Rental and sale square footage rates are rising daily.

If you are interested in becoming part of a safe and secure equity participation ownership interest in valuable Manhattan commercial and residential real estate, now is the time to take action with *Rainmaker Realty Partners*. Contact Rainmaker today at 646-375-2348.

RAINMAKER REALTY PARTNERS ADDENDUM TO PARTNERSHIP REPORT REGARDING IRA CONTRIBUTIONS.

Date: 4/1/04

Subject: IRA Contributions

Program:	April 1, 2004;	Closed
Applicability:	May 1, 2004;	Closed
	June 1, 2004;	Closed
	July 1, 2004;	Open
	August 1, 2004;	Pending
	September 1, 2004;	Pending

http://www.rainmakerlifecare.com/realtypartners/rainmaker_facts.htm

6/9/2005

Rainmaker Managed Living LLC

The following material addresses the applicability of the Rainmaker Real Estate Partners series of program to partners who utilize IRA funds. All Rainmaker Programs are Tenancy-in-Common programs better known as equity participation agreements.

Tenancy-in-Common Ownership. In this form of ownership, each of two or more people have an undivided interest in a property, without the right to survivorship. In other words, upon each partner's death, his share will go to the person designated in his will rather than the other partners. Because each person's interest, or share, is undivided, each can sell his share at any time without the consent or agreement of the others.

Tenancy-in-common is an arrangement, which allows you to buy a property together, with each person putting in the amount of money he or she has available. Each will own a certain percentage of the property. Then, as time goes on, each will get a proportionate share of the annual income and, ultimately, a share of the sale profits based on the ownership percentage.

Tenancy-in-common ownership also allows you to use both IRA funds and discretionary funds to buy a single investment. For instance, if your savings are adequate, you can buy part of the property with your savings, and part of it with your IRA. In another scenario, you can buy an interest in the desired property with your IRA, and friends and family can buy interests with their discretionary funds. This method is totally legal.

The tenants-in-common arrangement allows each of you to invest the amount of money you have available, rather than a prescribed share; and will allow the participation of disqualified individuals without risking a prohibited transaction. There will be no debt, the tenants will pay all the expenses, and the assisted living tenants will have lifetime occupancy. Furman Realty collects and disburse the rents to the owner.

The attorney draws title or the master lease as tenants-in-common, completes the IRA administrator's paperwork, and sends it on to the title insurance company. Then money is sent to the seller, or lessor and title or occupancy right then passes to the individual "tenants" based on the percentage of ownership purchased by each one. Your IRA and those members who used discretionary funds start receiving an annual return of 25 percent.

Risks & Indemnification

The value of your investment in Rainmaker Realty Partners will go up and down based on the value of the Account's assets and the income the assets generate. The potential risk associated with Rainmaker Realty Partners is moderate. You can lose money by investing in Rainmaker Realty Partners. Rainmaker Realty Partners assets and income (particularly its real estate assets and rental income) can be affected by many factors, and you should consider the specific risks presented below before becoming an equity participation co-partner in Rainmaker Realty Partners.

NOTE: Your risk is limited to the value of your units. All other risk is assumed by the Managing Partner, the Furman Law Firm and you are indemnified from any additional risk by the managing partner who will defend you free of charge in the event of a court or arbitration challenge and pay any award from Furman Funds on your behalf.

IRA ADMINISTRATION FEES

Rainmaker Realty Partners pays any administration fee so long as the partner agrees to retain the unit for one (1) full year. Additional annual fees carry the same one full year caveat. Early withdrawal will result in the deduction of any fees advanced from the final settlement.

Welcome to Rainmaker

My name is Alireza Dilmaghani, Esquire, General Counsel for the Corporate In House Legal Department at Rainmaker Managed Living, LLC in New York City. I am the managing partner for the Rainmaker programs. This program closed out as all of the available units were sold as of April 1, 2005. The program remains on the web site to allow you to see the benefits of becoming a Rainmaker Subscriber and demonstrate how the new Rainmaker Mortgage programs will be paid off.

I am pleased to announce that even though this program is closed there are available at this time a small amount of QUEST units which have been partially redeemed by a large pension client which are available in lump sum lots. Please call J.J. Conway today at 310-831-7700 or 310-367-8888 if you have interest in these lump sum redeemed units, as they will not last long.

As you read this report you will see that the expertise and professionalism of Rainmaker Managed Living, LLC, which manages the Rainmaker Programs gives you a safety net never before experienced and a high yield real estate investment not often found. You will discover that the proven results of Rainmaker and its highly specialized highbred general partnerships are a safe and secure harbor for investment capital. With a guaranteed annual return of 25% annual interest, paid monthly and quarterly distributions of net profits, you will quickly see why Rainmaker is an exceptionally wise investment secured by multimillion dollar commercial real estate.

Rainmaker's Legal staff has solid management skills and real estate savvy that come from a combined total of more than 30 years experience in real estate law as applied to the assisted living industry.

After reading the Rainmaker Program you will have an opportunity to put your money to work in a safe investment secured by real estate with an exceptional above average yield.

25% Guaranteed Annual interest, paid the 1st of each month.

Anticipated Rate of Return for the first year with 2 properties and quarterly profit share 37%

Anticipated Rate of Return for the second year with 4 properties 49%

**Anticipated Rate of Return in the third year and each year thereafter with 6 properties 61%
(Above return is predicated upon all properties being up and running and a 1000 bed capacity having been attained)**

The security of having your investment backed by multimillion dollar commercial real estate properties in the New York City and Southern California, market that are owned by your partnership.

Risk free participation through the Rainmaker LLC, A limited liability corporation which controls the general partnership and fully shields you from all liability concerns.

Having the wisdom and guidance of an experienced legal team at the helm to manage and direct your investment capital.

Rainmaker Facts

http://www.rainmakerlifecare.com/partnerships/rainmaker_report.htm

6/18/2007

Let's face it: real estate investing is very profitable, especially in the New York City and Southern California real estate market. *Rainmaker Realty Partners* takes the headaches out of real estate ownership with a skilled staff of experts who do not make any money unless you make money.

Why Invest with Rainmaker Realty Partners

Rainmaker Realty Partners locate and inspect the properties.

Rainmaker Realty Partners professional management team handles all the financial and legal concerns.

No mortgage payments and no managerial responsibilities.

Long term capital growth from high value property in the New York City and Southern California real estate markets.

Rainmaker Realty Partners guarantees a minimum 25% annual rate of return paid monthly.

Rainmaker Realty Partners works to minimize risks and maximize profits.

Rainmaker Realty Partners seeks to obtain favorable returns for our partners by tapping into potential real estate opportunities. Record low interest rates, especially in the New York and California markets has caused investment activity to blossom.

Real estate investments are less volatile and risky than most common stocks and bonds, and they provide excellent portfolio diversification. Recent developments in the past three years resulted in a great real estate market in Manhattan property. Now, market growth is accelerating even faster that interest rates are going up. Rental and sale square footage rates are rising daily.

If you are interested in becoming part of a safe and secure equity participation ownership interest in valuable New York City and Southern California commercial and residential real estate, there could not be a better time to become a partner in a winning program.

Rain Makers Projections*

It is the plan of Rainmaker realty partners to create assisted and adult living facilities of 100 beds or more. Rainmaker Assisted and Adult Living centers will be managed living facilities of 100 to 250 plus Residents.

Rainmaker Assisted Living will have a rate card minimum of \$4,500.00 per month (except in certain startup phases wherein "temporary 3 to 12 month reduced rates may be offered to fill a facility). Contract medical care will also be provided. The average costs per month to service the client's needs are 65% (\$2,925.00). The profit will be 35% (\$1,575.00) the return on the average 100 bed facility will be (\$157,500) per month. Rainmaker Adult living will have a rate card lower in cost than other assisted living units elsewhere as the level of care and staff needs are much less than assisted living requires, *however the percentage of profit margin will be much greater using the Rainmaker marketing program and unique client acquisition method which is unique to the industry. Clients are permitted to purchase lifetime leases on units in any facility by the utilization of cash or a real estate equity transfer of \$ 250,000.00 from their property to the Rainmaker Managed Living, LLC. This money is then used as cross collateral to secure other income producing real estate projects. In a proof of*

concept project in Belle Harbor New York our first 16 bed facility had 1270 applications for residence in less than one week.

The partnership is based upon 100,000 square feet. We will have a maximum of 1000 clients in that amount of square footage depending on the size of each boutique facility we locate. Over the next three years or sooner, we will obtain 1000 clients at a monthly profit rate of \$1,575.00 per bed and a return of \$ 1,575,000.00 per month to the partnership, net. When these numbers are achieved the projected three year net of 61% return per year will be met or possibly exceeded.

PROFIT DISTRIBUTION MIX & BONUS UNITS

The program report infra, at page 10 describes anticipated partnership profits of 37% to 60% between the First and Third year of operation. These percentages are based upon cash flow from the 100,000 square feet and/or 1000 beds which will be owned by the partnership(s) series. However, the managers of the Rainmaker Partnership after attaining the 1000 bed maximum will also be engaged in opening additional facilities which will not be owned by the partnership. These additional beds will be used to guarantee the above projected returns for the period the partnership is in operation. The guarantee is formulated at the first year minimum of 37% to the maximum of 60% for the third year forward with deduction of the foundational 25% interest guarantee. The difference between the 25% guarantee and the first year 37%, (12% derivative) second year 49% (24% derivative) and third year and thereafter 60% (35% derivative) will be guaranteed by the managing partners bed space overage profits beyond the 1000 bed maximum.

Annual minimum guaranteed interest of 25% will be paid monthly and quarterly distributions as described in the program report will be made pursuant to the amount of partners in the program.

Projections are based upon research conducted on similar facilities and are used as reasonable and calculated predictable returns but can in any way be assured.

Rainmaker Realty Services.

Construction and Development:

Rainmaker Realty Companies National Development Services team has experience conducting market research, site selection, and development work nationwide. We have working knowledge of available sites, local ordinances, and development standards, and have established key contacts and resources in all major cities in any of the fifty states and overseas.

Rainmaker Realty Companies' National Development Services are performed from our well-positioned national office in New York City in the heart of the nation's capital markets, to effectively service our clients' needs over a national geographic area.

Rainmaker Realty Companies' offers a unique, proven business process for successfully developing new facilities for clients with real estate needs in multiple markets. Rainmaker Realty Companies' caters to companies with aggressive development goals. These companies appreciate Rainmaker Realty Companies' ability to handle each aspect of the development process including market and site research, site acquisition, finance, due diligence, design, construction, fixture installation, property management, and maintenance.

Brokerage - Land or Building Acquisition

Property sales, Residential, Commercial & Industrial Leasing, Equity Participation, Site Selection, Contract Negotiation, Closing Coordination, Financial Analysis, Site Planning, Approvals & Permits, Full service mortgage department, In house finance unit for raising funds in capital markets public & private, Mezzanine financing, Bridge loans, Wraps and 1031 exchanges. Rainmaker is a full service real estate and development company.

RAINMAKER REALTY PARTNERS I EQUITY PARTICIPATION PROGRAM ASSISTED & ADULT LIVING FACILITIES

IRA SUBSCRIBERS MUST USE RAINMAKER MANAGED CARE LLC DOCUMENTS

April 1, 2004 PART "G" NYCAL

REVISED FEBRUARY 17 2005

This program describes Rainmaker Realty Partners, equity Participation Program offered by Rainmaker Realty of New York, New York.

1000 Units at \$1,000.00 Per Unit. Ten Unit Minimum (\$10,000.00) TOTAL OFFERING \$1,000,000.00 ONE MILLION DOLLARS (PER SERIES) Units denominated in Basis Points.

Rainmaker Realty Partners I, April 1, 2004, NYCAL PROGRAM, IS A TENANCY IN COMMON PARTNERSHIP WHICH WILL INVEST ONLY IN REAL ESTATE AND REAL ESTATE RELATED ASSETS IN THE STATE(S) OF NEW YORK AND CALIFORNIA.

REGISTRATION WITH STATE OR FEDERAL SECURITIES AGENCY

The Equity participation program described herein is not considered a public offering or a private offering of securities or a limited partnership exempt from registration under any State or Federal securities act as the Equity Participants who become co-owners of any rights to any property purchased, leased or lease-held by *Rainmaker Realty Partners* are co-owners with full control over any property purchased, leased or lease-held by *Rainmaker Realty Partners*. It is the opinion of the managing partner for Rainmaker Realty Group that based upon all co-owners having full control and equal voting rights as to acceptance or rejection by the majority (more than 50.1 percent of the partners) of any property proposed for purchase, lease or lease-hold, that such full rights make the co-owner a controlling general partner under the laws of all fifty (50) states and render any such registration under any security act non-applicable as *Rainmaker Realty Partners* is a general partnership not a trust, limited partnership, investment, stock offering or note offering.

Rainmaker Realty Partners will invest in commercial real estate primarily in New York City, Los

Angeles, San Diego, and Santa Barbara, California. It is anticipated that all California property will either be outright purchase or 30 year triple net leases in most cases.

Rainmaker Realty Partners seeks to acquire and operate commercial adult managed living, assisted living and adult living properties and, including without limitation, office buildings, shopping centers, business and industrial parks and other commercial and industrial properties, or businesses through outright purchase or leasehold.

Rainmaker Realty Partners will purchase or obtain leaseholds to properties that are under construction or development, are newly constructed, or have been constructed and have operating histories. All such properties may be acquired, developed and operated by Rainmaker Realty Partners, either alone or jointly with another party.

Rainmaker Realty Partners, at this time is structured to enter into joint general partnership ventures for the acquisition and/or control of individual properties with tenancy in common projects for each individual property sponsored by the Managing Partner and its affiliates.

THE PARTNERSHIP

Rainmaker Realty Partners I, April 1, 2004, NYCAL Program is an individual tenancy in common partnership and the partners herein are not partners in any other Rainmaker Realty Partners property other than the seven series described infra. Each equity participation program managed by Rainmaker Realty Partners is identified by a Roman Numeral and date. The partnership you are currently considering joining as a partner is Rainmaker Realty Partners I, April 1 2004, NYCAL Program, which is a newly created general partnership formed pursuant to the laws of the State of New York to acquire control of and operate adult managed living and assisted living facilities and other businesses within the properties controlled by the partnership. In addition to the opening offering a [A], [B], [C], [D], [E], [F] and [G] series of secondary offerings, totaling seven (7) parts. The partnership also participates under similar conditions as those contained in this program report in the Rainmaker Managed Living, LLC, a program designed to service the needs of I.R.A. and Keogh Plan partners, which makes a total of eight series of offerings. You will receive income from all eight (8) series of the April 1, 2004, programs.

As of the date of this partnership report, the partnership made offers which have been accepted on 2 properties that are awaiting a purchase vote of 51% by all current partners. The existing Belle Harbor property will be sold in conjunction with the purchase of the first larger property. The partnership is engage in final negotiations for various other high quality properties, however, properties under consideration have at present have yet to be closed upon or master leased at this time pending partners approval. All six properties have not been identified at this time so the partnership is a "BLIND POOL".

WHAT IS RAINMAKER ADULT MANAGED LIVING?

Rainmaker Adult Living is for people who do not need any assistance and are considered general public tenants. These clients are general tenancy clients who either rent space from Rainmaker at prevailing rental rates or participate as owners through tenancy in common agreements.

WHAT IS RAINMAKER ASSISTED & ADULT LIVING?

Rainmaker Assisted living facilities are for people needing assistance with Activities of Daily Living (ADL) but wishing to live as independently as possible for as long as possible. Assisted living exists to

bridge the gap between independent living and nursing homes. Residents in assisted living centers are not able to live by themselves but do not require constant care either. Assisted living facilities offer help with ADL such as eating, bathing, dressing, laundry, housekeeping, and assistance with medications. Many facilities also have centers for medical care; however, the care offered may not be as intensive or available to residents as the care offered at a nursing home. Assisted living is not an alternative to a nursing home, but an intermediate level of long-term care appropriate for many seniors.

Most assisted living facilities create a service plan for each individual resident upon admission. The service plan details the personalized services required by the resident and guaranteed by the facility. The plan is updated regularly to assure that the resident receives the appropriate care as his or her condition changes. Rainmaker was created to fill the pressing need for Adult living space and ADL in the New York City and Southern California area.

The term used for assisted living facilities differs across the country. Other common terms for these facilities include:

Residential care Personal care

Adult congregate living care Board and care

Domiciliary care Adult living facilities

Supported care Enhanced care

Community based retirement facilities Adult foster care

Adult homes Sheltered housing

Retirement residences

Assisted living is the generic term used across the country.

How Does a Rainmaker Assisted Living Facility

Differ from a Nursing Home?

Nursing homes are designed to care for very frail people that are not able to care for themselves and have numerous health care requirements. Assisted living facilities are designed to assist elderly persons who are able to care for themselves except for a few activities. Assisted living facilities are often deemed necessary when the person in question needs help preparing meals, bathing, dressing, performing household chores, is sometimes confused, or is experiencing memory problems.

Why is Rainmaker Retirement Communities Special?

Over the years many people have encountered various types of less than favorable treatment by different care facility operators. Rainmaker designs all facilities to be top shelf operations. Rainmaker facilities will be the best of the best. When a family hears the word Rainmaker they know their loved one will be receiving the best of care. Our philosophy is simple: Redirect profits back into each facility assuring an exquisite atmosphere in each room along with devoted and affectionate care professionals. Our goal is to

have the finest facilities and amenities at each location. All our facilities will have waiting lists and the increased clientele because of the reputation created by Rainmaker's attention to the smallest details and our very unique marketing plan. Our main mission is to develop, construct and manage senior living communities with an emphasis on quality, to be a caring organization that provides friendly communities and services for Senior Adults which foster the physical, mental, social and spiritual well-being of each resident.

Rainmaker Managed Care ... The best of the best.

PARTNERS VESTED INTEREST

As each series closes [A], [B],[C],[D],[E] [F] and [G] partners in all secondary series [A], [B],[C],[D], [E] [F] and [G] will receive income from all properties, no matter what series the property may have closed within, as to monthly return and profit sharing. However, based upon the fact that each series will close at different times not all partners' names will be recorded on every partnership as many partners will join after early properties have already closed. In such case late joining partners will be vested in early properties by virtue of the overall interest held by each and every partner in the individual umbrella Rainmaker Managed Living, LLC, (for "New York" or "California" or "FUTURE LLC'S IN ANY OF THE OTHER 48 STATES) parent limited liability entity.

DISTRIBUTION OF PROCEEDS

MONTHLY

Each unit holder shall receive 25% per annum simple interest based upon the following per unit formula. Each unit is valued at \$1,000.00. Simple annual interest is \$250.00 annually on each unit. The monthly amount of simple interest shall be \$20.83 per month until the property is sold. Upon sale, the proceeds shall be distributed as follows.

QUARTERLY

All profits in Rainmaker Realty Partners, April 1, 2004 will be distributed on the first business day of each quarter April 1st; July 1st; October, 1st; and December 31st. Profits are calculated as being all sums of money in the Rainmaker Realty Partners liquid cash bank account or liquid securities (non property related). Distribution will be 75% of the money in those accounts. 25% will be retained for future operating expenses and acquisitions.

The proceeds shall be distributed after all expenses are paid and the managing partner receives and amount equal to 25% of the profits for the managing partners services to Rainmaker Realty Partners, April 1, 2004. The remaining 75% of cash available will be distributed on the dates set forth supra based upon the number of units outstanding divided equally into the balance of cash available.

IT IS ANTICIPATED THAT THE OVERALL MIX OF DISTRIBUTIONS FROM PROCEEDS ACCORDING TO THE MANAGING PARTNERS PLAN WILL RESULT IN AN APPROXIMATE 60% RETURN ANNUALLY AFTER YEAR 3. AT THAT POINT YOU WILL RECEIVE 60% EACH YEAR THEREAFTER AS LONG AS YOU ARE IN THE PARTNERSHIP. (PROJECTIONS BASED ON MAXIMUM PARTNERSHIP CAPACITY OF 1000 BEDS)

WHO IS THE MANAGING PARTNER?

The Rainmaker programs are managed by Rainmaker Managed Living, LLC.

Rainmaker Managed Living, LLC is located at 116 W. 23rd Street, corner of Sixth Avenue, New York, NY 10011.

HOW EQUITY PARTICIPATION WORKS

GOLD CERTIFICATE UNITS

You as an equity co-partner will have the opportunity to evaluate the economic merit of a property purchase or lease before becoming an equity partner. You will "NOT" rely solely on Rainmaker Realty Partners judgment and ability to select investments consistent with Rainmaker Realty Partners investment objective and policies. Partners have a vote in each acquisition. These units are the Gold Certificate series of partnership units, and do "NOT" qualify for self-directed IRAs.

BLUE CERTIFICATE UNITS

In the event you are taking funds from a self-directed IRA, you will not have direct control and such control will be vested in the authority of a trustee appointed by you to administer the units or such authority may be vested in the managing partner. These units are the Blue Certificate series of partnership units, and are fully qualified for self-directed IRAs. *Please see the Rainmaker Managed Living LLC program report for further details.*

MAJORITY EQUITY CO-PARTNER VOTER RULES

Rainmaker Realty Partners will select property or properties as they become available. The managing partner will e-mail you a description of the property, the terms upon which any interest in the property will be acquired, and photos and valuation documents to each and every equity co-partner. Each partner will vote for or against acquisition or sale of any interest in any property. These voting rights are not vested in **BLUE CERTIFICATE** holders who must act through a third party for IRA qualification purposes. *Please see the Rainmaker Managed Living LLC program report for further details.*

Your decision to acquire an equity participation unit(s) as a result of reading this partnership report is not a positive vote by you for acquisition of any property. Acquisitions by purchase, option or leasehold will be made as the operation progresses and the majority of those holders of partnerships units who are on account at the time of the proposed acquisition shall vote for such acquisition and partners joining the partnership at a later date shall be bound by any agreed upon purchase, option or leasehold prior to the partners joining the partnership.

Rainmaker Partners enjoy secured returns. As a Rainmaker Partner your partnership interest is secured by leaseholds or ownership of prime multimillion dollar commercial and residential Real Estate. Minimum **guaranteed rate of return is 25%** annually, paid monthly. You will receive a minimum of \$20.83 on the first of each month for each \$1000.00 invested. Anticipated rate of return for the first year is projected to be 37% with two projects operational and fully leased. Second year returns based on 4 facilities fully occupied will be 49% and the third year with 1000 beds leased will be 60%. At the end of the third year, your returns will cap at this point with no escalation after that. You will earn 60% each year thereafter as long as you remain in the partnership. (See: Profit Distribution Mix/Bonus Units at

Page 3 infra)

Rainmaker Realty Partners

Overall Objectives and Strategy

Investment Objective: Rainmaker Realty Partners I, April 1 2004, NYCAL Program seeks favorable long-term returns primarily through rental income and appreciation of real estate investments owned by Rainmaker Realty Partners.

Investment Strategy: Rainmaker Realty Partners I, April 1 2004, NYCAL Program seeks to invest 100 percent of its assets directly in real estate, commercial ventures, assisted living centers and real estate-related investments. Rainmaker Realty Partners principal strategy is to purchase direct ownership or leasehold interests in income-producing real estate, such as office, industrial, retail, commercial ventures and multi-family residential properties. Rainmaker Realty Partners I, April 1 2004, NYCAL Program will also invest in other real estate or real estate-related investments.

Rainmaker Realty Partners I, April 1 2004, NYCAL Program will “NOT” invest the funds held in escrow in any non-U.S. Government securities, money market instruments and other cash equivalents. All funds are held in an attorney’s trust account for use in partnership real estate related activities only.

RAINMAKER REALTY PARTNERS GENERAL USE OF PROCEEDS

DEPENDING UPON THE PARTICULAR PROPERTY IN
YOU’RE PARTNERSHIP, THE FOLLOWING

GENERAL RULES WILL APPLY:

Direct Purchase: Rainmaker Realty Partners I, April 1 2004, NYCAL Program will generally buy direct ownership interests in existing or newly constructed income-producing properties, including office, industrial, retail, and multi-family residential properties. Rainmaker Realty Partners will invest mainly in established properties with existing rent and expense schedules or in newly constructed properties with predictable cash flows or in which a seller agrees to provide certain minimum income levels. On occasion, Rainmaker Realty Partners might invest in real estate development projects. Rainmaker may also purchase, lease or create various business entities to occupy space with Rainmaker held properties.

Purchase-Leaseback Transactions: Rainmaker Realty Partners I, April 1 2004, NYCAL Program can enter into purchase-leaseback transactions (leasebacks) in which it will typically buy land and income-producing improvements on the land (such as buildings), and simultaneously lease the land and improvements to a third party (the lessee). Leasebacks are generally for very long terms. Usually, the lessee is responsible for operating the property and paying all operating costs, including taxes and mortgage debt. Rainmaker Realty Partners can also give the lessee an option to buy the land and improvements.

INVESTMENTS IN MORTGAGES

General: Rainmaker Realty Partners I, April 1 2004, NYCAL Program can originate or acquire interests in mortgage loans, generally on the same types of properties it might otherwise buy. These mortgage loans may pay fixed or variable interest rates. They usually will be full-recourse, which means that in addition to being secured by the actual property they will also be the borrower's personal obligations. Most will be first mortgage loans on existing income-producing property, with first-priority liens on the property. These loans may be amortized, or may provide for interest-only payments, with a balloon payment at maturity.

Participating Mortgage Loans: Rainmaker Realty Partners I, April 1 2004, NYCAL Program may make mortgage loans which permit the Account to share (have a "participation") in the income from or appreciation of the underlying property and/or the business occupying the property as is the case in strip malls and shopping centers. These participations let Rainmaker Realty Partners receive additional interest, usually calculated as a percentage of the revenues the borrower receives from operating, selling or refinancing the property. Rainmaker Realty Partners may also have an option to buy an interest in the property securing the participating loan.

Risks & Indemnification

The value of your investment in Rainmaker Realty Partners will go up and down based on the value of the Account's assets and the income the assets generate. The potential risk associated with Rainmaker Realty Partners I, April 1 2004, NYCAL Program is minimal based upon the experience and operating plans of the managing partner.

RAINMAKER MANAGED LIVING LLC

BLANKET PROTECTION

NOTE: Your risk is limited to the value of your units. Rainmaker is an all inclusive series of offerings operating under the Rainmaker Managed Living LLC, and as such you have no other risk. All other risk is assumed by the Managing Partner, and you are indemnified from any additional risk by the managing partner who will defend you free of charge in the event of a court or arbitration challenge and pay any award on your behalf.

REAL ESTATE INVESTMENT MANAGEMENT

Rainmaker Realty Partners I, April 1 2004, NYCAL Program will utilize a specialized management approach of self contained site management, development and construction coupled with the Rainmaker Legal teams experience to minimize the general risks of owning real property: Rainmaker Realty Partners will be subject to the caveats inherent in owning real property, such as property values or rental and occupancy rates could go down due to general economic conditions, a weak market for real estate generally, changing supply and demand for certain types of properties, and natural disasters such as the 911 attack or other man-made events. A property may be unable to attract and retain tenants, which means that rental income would decline. Rainmaker does not anticipate any of these events ever occurring based upon the Rainmaker legal team's track record and experience in the New York City real estate market.

The unique mix of Rainmaker Realty Partners I, April 1 2004, NYCAL Program specialized management approach of self contained site management, will prevent Rainmaker Realty Partners I, April 1 2004, NYCAL Program from loss of any revenue if tenants do not pay rent. Any disputes with tenants could also involve costly litigation, which would be diminished as Rainmakers legal team will handle the case at no cost to the partnership. Rainmaker is designed to protect against property profitability being affected if operating costs, such as property taxes, utilities, maintenance and insurance costs go up in relation to gross rental income, or the property needs unanticipated repairs and renovations.

The Rainmaker Realty Partners I, April 1 2004, NYCAL Program legal team and Real Estate team minimize any of the general problems usually associated with the selling of real estate investments, such as sale price of a property differing from its estimated or appraised value, leading to losses to Rainmaker Realty Partners. Because of the nature of real estate, or full value sale, particularly in a poor market, the Rainmaker team of attorneys and real estate professionals work every day in the field and anticipate every known risk to make sure the partnership and all the partners are safe and secure from loss.

The Rainmaker Realty Partners I, April 1 2004, NYCAL Program legal team and real estate team anticipate governmental regulations, including zoning laws, property taxes, and fiscal, environmental or other government policies. Rainmaker's legal team and real estate team anticipate various environmental regulations.

Rainmakers legal team and real estate team purchase properties situated and designed in a manner to protect the partnership from any catastrophic financial losses (e.g., from earthquakes, wars, terrorist acts, nuclear accidents, floods, or environmental or industrial hazards or accidents) which are uninsurable by using the tenancy in common approach which negates losses to the partnership by assigning the risk to the tenants.

The Rainmaker Realty Partners I, April 1 2004, NYCAL Program legal team and real estate team anticipate risks of Developing Real Estate or Buying Recently-Constructed Properties: If Rainmaker Realty Partners chooses to develop a property or buys a recently-constructed property, the team makes extensive plans to avoid any loss caused by delays or unexpected increases in the cost of property development and construction due to strikes, bad weather, material shortages, increases in material and labor costs, or other events such as external factors from when the project was originally conceived (e.g., slower growth in local economy, higher interest rates, or overbuilding in the area).

Your partnership is managed by an experienced law firm staffed with real estate professionals who work for you for free. The safety and protection of the Rainmaker program is unmatched anywhere else.

SALE, TERMINATION, CESSATION OF PARTNERSHIP

Upon the sale or termination of ownership or control over the property Rainmaker Realty Partners I, April 1 2004, NYCAL Program, will distribute after all expenses are paid, and the partners' initial units are retired at \$1,000.00 per unit, a sum equal to 66.66% of the remaining funds to the equity unit holders equally divided amongst the holders based upon the number of units held. The managing partner will receive an amount equal to 33.34% of the profits for the managing partners' services to Rainmaker Realty Partners I, April 1 2004, NYCAL Program.

INABILITY TO WAIVE COLLECTION

Equity co-partners cannot waive monthly interest payments or quarterly payment profit share distributions. They also may not waive final distribution payments or defer the payment(s). Checks are sent automatically to each holder of record each month until partnership termination.

RAINMAKER IS NOT A TAX SHELTER*

Rainmaker Realty Partners I, April 1 2004, NYCAL Program, is designed as a profit making venture and will offer very little tax benefits to the equity co-partners as applied to sheltering active or passive income. Rainmaker Realty Partners I, April 1 2004, NYCAL Program, will increase your capital gains tax base based upon interest and partnership termination proceeds upon sale or disposition of any property.

***Tax benefits, if any, will be equally divided amongst the equity co-partners.**

LIQUIDITY OF UNITS

Rainmaker Realty Partners I, April 1 2004, NYCAL Program will repurchase and/or arrange liquidation of any amount of units from an equity co-partner at any time after partnership activation (full subscription of all eight parts of the series) and completion of purchase as to the first 100,000 sq feet of leasehold or purchased property upon demand with settlement within 30 to 60 business days of the demand for repurchase by the equity co-partner. In the event of a repurchase demand, the units will be repurchased at their face value of \$1,000.00 per unit.

In certain events wherein all the funds in escrow have been used to purchase rights in properties, the managing partner may be forced to borrow against a property or resell units tendered to third parties causing a possible delay in redeeming units for cash.

The equity co-partner may sell the units to another without the approval of Rainmaker Realty Partners I, April 1 2004, NYCAL Program as long as an offer to purchase is first made to Rainmaker Realty Partners and its managing partner and all partners of record through the e-mail communications system. In the event of an offer under right of first refusal the managing partner shall have first option and thereafter the equity partners shall have first come, first served option for a period not to exceed 72 hours from the time the selling partner offers the units for repurchase on the e-mail communications system.

INTEREST PENALTY BEFORE 366th DAY

Equity partners must hold their individual units for at least 366 days. In the event a demand is made to repurchase the managing partner, *Rainmaker Realty Partners* will deduct 50% of all interest paid before the 366th day and remit the balance of the proceeds to the equity partner. **[The partner will receive one half of the interest equaling 12.5% annually]**. In the event the equity partner sells the units to a third party after being offered to the managing partner, there will be no deduction or interest penalty.

SECURITY OF REAL ESTATE

The partnership obtains property in one of six ways. [1] Outright purchase of buildings and land with conversion to our operating needs. [2] Purchase of existing facilities with buildings and land. [3] Purchase of existing facilities with building only on leased land. [4] Purchase of buildings only on

leased land. [5] Master lease of existing nursing and assisted living facilities. [6] Master lease of buildings and land with conversion to our operating needs.

Each facility is utilized as a back up for the partnerships investment. In either case of a purchased or master leased facility the process utilized is one wherein either a trust is created with the existing partners name on the trust addendum and the trust controls the property during the lease term or until the property purchase is closed. At time of closing or master lease inception the partnership is named as the owner or master lessee and the partners are named in an addendum U.C.C. filing or trust addendum as owners of the partnership shares. Individual partners names do not appear on any deed at anytime. The partnership is the owner or master lessee with the partner's evidence as owning the partnership. This is true even in situations wherein **key partners** (an entire program taken down by one person or entity) control a property.

START UP INTEREST PAYMENTS

The partnership guarantees a minimum return of 25% annually on your partnership shares payable monthly. In the beginning as facilities are under construction, ramp up or lease negotiation. The interest payments during that time will be derived from short term investment in real estate bridge loans, government securities, foreclosed rollovers, income from the operations of the Managing partners law firm, proceeds from collections on pending litigation, and consulting services to other third party assisted living and nursing facilities regarding the licensing of the Rainmaker 1031 and TIC program packages on a non-exclusive proprietary basis in areas wherein Rainmaker will not be seeking to establish operations in the near future and pre-need sales of TIC packages.

SECURITY OF REAL ESTATE

The partnership obtains property in one of six ways. [1] Outright purchase of buildings and land with conversion to our operating needs. [2] Purchase of existing facilities with buildings and land. [3] Purchase of existing facilities with building only on leased land. [4] Purchase of buildings only on leased land. [5] Master lease of existing nursing and assisted living facilities. [6] Master lease of buildings and land with conversion to our operating needs.

Each facility is utilized as a back up for the partnerships investment. In either case of a purchased or master leased facility the process utilized is one wherein either a trust is created with the existing partners name on the trust addendum and the trust controls the property during the lease term or until the property purchase is closed. At time of closing or master lease inception the partnership is named as the owner or master lessee and the partners are named in an addendum U.C.C. filing or trust addendum as owners of the partnership shares. Individual partners name do not appear on any deed at anytime. The partnership is the owner or master lessee with the partner's evidence as owning the partnership. This is true even in situations wherein **key partners** (an entire program taken down by one person or entity) control a property.

VISITING FACILITIES

Clients come to Rainmaker under the exclusive TIC program to retire in luxury and with the sense of security only Rainmaker can offer. These clients pay Rainmaker a minimum of \$250,000.00 to retire in a carefree setting with no distractions. Our clients also demand security and peace and quiet. Rainmaker facilities are distinct in that they are not open to the public. We discourage any visit to any facility unless management is aware of the visit. We value our client's dignity and safety so highly that we will not list the property in a telephone book. We understand that prospective partners or current partners

may have a desire to visit facilities as they come on line. Rainmaker has a guided visitation program wherein prospective or current partners will be taken to a facility by management staff after presenting themselves at our law firm offices in New York or Los Angeles. There are no exceptions to these rules as we have a contract regarding these security measures with our clients that we must abide by. If you are seriously considering a visit to a Rainmaker facility, please call the East Coast or West Coast offices to arrange for a tour.

E-MAIL COMMUNICATIONS SYSTEM

All communications regarding property sale and/or acquisition or repurchase of units or general business between the equity co-partners and the managing partner and Rainmaker Realty Partners will be via the Rainmaker Realty Partners E-Mail communications system. Each and every equity co-partner is requested to maintain an E-mail account and report such E-mail address to the Rainmaker Realty Partners and the managing partner. Distributions of all reports and transactions except for monetary payment transactions will be via the E-mail communications systems. In the event a partner desires mail only in place of the e-mail system the partner is advised that he/she/it will receive their reports and advisements in a fashion much slower than other partners who utilize the e-mail system. Any delay or loss due to the slow movement of surface mail is the sole responsibility of the partner.

DEATH OF A CO-PARTNER OR DISPUTE REGARDING A CO-PARTNER

In the event a co-partner shall become incapacitated or deceased, the co-partners interests shall be first governed by the co-partners will or written directive herein and thereafter subject to the estate laws in the co-partners state of residence. In the event of any dissolution of a marriage, partnership, business relationship, or any type or form of legal dispute for any reason whatsoever, Rainmaker Realty Partners shall not be held responsible except for the original \$1,000.00 investment value per unit for units subscribed, and any accumulated interest or distribution to date which has yet to be distributed.

During the transition phase of the estate or dissolution, all interest payments and quarterly distributions or distributions from a sale or transfer of a property shall continue to the estate trustee or court ordered trustee. If no such trustee is appointed, such funds will be distributed in accordance with the directive of any court having control upon application by the managing partner to the court for an order of distribution.

PAYMENT TRANSACTIONS

The sending or receiving of any cash, check, money order or monetary instrument either to or from the managing partner shall be by United States mail or a generally recognized commercial package courier. Payments sent by the managing partner shall be sent to the address listed on the last page of this report (the subscription page) and payments sent to:

Rainmaker Realty Partners

C/O Furman Law Firm,

P.O. Box 1144, Madison Square Station,
New York, New York, 10159-1144.

CONSTRUCTION OF THIS DOCUMENT

Rainmaker Realty Partners is organized under the general partnership rules of the State of New York. Rainmaker Realty Partners shall be organized as a DBA utilizing the name Rainmaker Realty as filed in the New York County Clerks Office in association with Rainmaker Managed Living, LLC, a New York State, LLC. Any portion of this document held unenforceable by a court of law shall not affect the surviving portions of the document. Any changes in the management rules of the general partnership shall be approved by majority vote of unit holders of record at the time the change is presented for an approval vote.

PUBLIC OFFERING

It is anticipated that the Rainmaker Realty Partners program(s) "may" be consolidated and converted as part of a public offering. In the event such a public offering actually occurs, each unit herein shall be retired at a rate of \$2,500.00 per unit in "COMMON" stock based upon the initial offering price of the common shares, and \$2,500.00 per unit in "PREFERRED" stock based upon the initial offering price of the preferred shares. The anticipated public offering is a part of the overall business plan of Rainmaker Realty Partners, however no promise is made that the offering will take place and you are cautioned not to rely upon the possibility of such a public offering when deciding to become a partner in any Rainmaker Realty Partners program.

INTERCHANGEABILITY WITH RAINMAKER MANAGED LIVING

It is anticipated that a small portion of partners may elect to use IRA funds for participation in one or more of the Rainmaker series of programs. In that event the rights, privileges, and benefits to monthly distributions shall be made pursuant to the same formula set forth herein.

NOTE: Due to the nature of the rules issued by the Internal Revenue Code and applicable Treasury Regulations which apply to IRA's, and consequently the Rainmaker Managed Care LLC, *the right to vote or receive funds directly* will be subrogated to the IRA trustee and such rights as applied to voting or funds receipt shall be vested in the name of the applicable IRA administrator.

THE AGREEMENT IN ITS ENTIRETY

This report constitutes the agreement between the equity co-partner(s) and the managing partner and Rainmaker Realty Partners in its entirety. No other verbal or written representation is of any force or effect.

QUESTIONS

In the event you have any questions, please feel free to call:

Rainmaker Managed Living, LLC, Headquarters Office

Attn: Sid Levine at 646-375-2348

Thank you for your interest in the Rainmaker Realty Partners Program(s).

Dated: April 1, 2004 (Rev 022105)

/s/ Alireza Dilmaghani

By: _____

Alireza Dilmaghani

Managing Partner

Rainmaker Realty Partners I, April 1 2004, NYCAL PROGRAM

116 W. 23rd Street, Suite 500

New York, NY 10011

646-375-2348

MAILING ADDRESS

Rainmaker Realty Partners I, April 1 2004, NYCAL PROGRAM

C/O: Rainmaker Managed Living, LLC

P.O. Box 1144, Madison Square Station

New York, NY 10159-1144

Rainmaker Realty Partners II,

April 1, 2004, NYCAL PROGRAM

SUBSCRIPTION SIGNATURE PAGE

I hereby stipulate that I have read the contents of the partnership agreement supra in its entirety and agree to all the terms and provisions contained therein.

I am "NOT" using IRA funds. I understand that in the event I desire to use IRA funds I must execute the subscription page for the **RAINMAKER MANAGED CARE LLC**, program for the state of investment or my state of residence.

Dated: _____

By: _____

Partner

CODE: 22691

Rainmaker Realty Partners I

April 1, 2004, NYCAL Program

SUBSCRIPTION AGREEMENT

The subscription page is written approval by the equity co-partner as to the terms and conditions set forth in the partnership report and the equity co-partner agrees to be bound by such terms and conditions and this report shall be deemed a contract enforceable in any court. The Securities and Exchange Commission (SEC) has not approved or disapproved equity participation units or passed upon the adequacy of the information in this report. Any representation to the contrary is a criminal offense. Neither the Attorney General of the State of New York, nor any securities regulator in any of the fifty states of the United States has approved or disapproved this equity participation program described herein or passed upon the adequacy of the information in this report. Any representation to the contrary is a criminal offense. I am executing this partnership agreement acting for my self or through an agent associated with Rainmaker management. I understand and have been advised that any agent utilized herein is subject to various terms and conditions of integrity regarding the agency representation represented by this partnership subscription and those terms and conditions are covered by a separate agent agreement.

Name _____

Address _____

City _____ State _____ Zip _____

E-MAIL ADDRESS (REQUIRED) _____

Telephone Number () _____ - _____

Cellular Number () _____ - _____

Fax Number () _____ - _____

Social Security Number _____ - _____ - _____ Date of Birth ____/____/____

☐ This is "NOT" an IRA purchase. ☐ This is an IRA purchase.

I appoint _____ as my trustee.

REQUIRED FOR K-1 YEAR END RETURNS AND/OR 1099 REPORTS TO IRS.

This is a purchase with my spouse/partner _____YES _____NO

SPOUSE OR PARTNER'S NAME _____

My partner _____shall _____shall not have survivor/executor rights in the event of my death or incapacity.

_____Number of units purchased @ \$1,000 per unit: Total: \$ (minimum of 10 units)

I have read the contents of all pages of the partnership report and agree to be bound by same.

I have enclosed my check for the amount set forth at the total above made payable to

Rainmaker Realty Partners and mailed it to:

Rainmaker Realty Partners

C/O: Rainmaker Managed Living, LLC

P.O. Box 1144, Madison Square Station

Code: 22691 New York, NY 10159-1144

Rainmaker Managed Living LLC

THE SUBSCRIPTION AGREEMENT

The completion of the subscription page of this report is written approval by the equity co-partner as to the terms and conditions set forth herein and the equity co-partner agrees to be bound by such terms and conditions and this report shall be deemed a contract enforceable in any court.

The Securities and Exchange Commission (SEC) has not approved or disapproved equity participation units or passed upon the adequacy of the information in this report. Any representation to the contrary is a criminal offense. Neither the Attorney General of the State of New York, nor any securities regulator in any of the fifty states of the United States has approved or disapproved this equity participation program described herein or passed upon the adequacy of the information in this report. Any representation to the contrary is a criminal offense.

Name _____

Address _____

City _____

State _____

Zip _____

NY - New York

Telephone Number _____

Cellular Number _____

Fax Number _____

Social Security Number _____

Date of Birth _____

REQUIRED OF K-1 YEAR END RETURNS AND /OR 1099 REPORTS TO IRS.

☒ This is NOT an IRA purchase.

This IS an IRA purchase: I appoint _____ as my trustee
I desire Furman Law act as my trustee in this partnership.

Employer Name _____

Address _____

City _____

State _____

Zip _____

NY - New York

☐ This is a purchase with my spouse/partner:

Spouse or partner's name: _____

My spouse shall not have any survivor/executor

Rainmaker Managed Living LLC

rights in the event of my death or incapacity.

Number of units purchased @ \$1,000 Per unit: Total: \$ (minimum of 10 units)

Vendor's checks and wire transfers are posted the same day they are received. Personal checks and any other type of funds are posted the same day however the closing documents incentives or interest are not executed until the funds are collected which takes 7 to 10 business days.

I have read the contents of all pages of this report and agree to be bound by same. I have enclosed my check for the amount set forth at the total above made payable to **Rainmaker Realty Partners** and mailed it to:

Rainmaker Realty Partners
Rainmaker Managed Living, LLC
P.O. Box 1144
Madison Square Station
New York, New York, 10159-1144

☐ I Agree

Rainmaker Managed Living LLC

Mortgage Partners

Partnership Report

Subscription Agreement

Rainmaker Managed Living Mortgage Group 41505, LLC

116 W.23rd Street, Suite 500

New York, New York, 10011

Ph: (646) 375-2348 Fax: (646) 375-2235

Welcome to Rainmaker Managed Living Mortgage Group 41505.

My name is Alireza Dilmaghani, Esquire, General Counsel of the Rainmaker Managed Living, LLC, Corporate Legal Department. I am the Managing Member for Rainmaker Managed Living, LLC, a New York limited Liability Company (hereinafter referred to as "Rainmaker Managed Living, Mortgage Group 41505, LLC.") as well as all other Rainmaker programs. As you read this report you will see that the expertise and professionalism of the Furman Law Firm legal staff, gives you a safety net never before experienced and a high yield real estate investment seldom available to the non-institutional investor.

You will discover that the projected results for the Rainmaker Managed Living Mortgage Group 41505, LLC, plan are a safe and secure harbor for investment capital. Each member is guaranteed a return of 25% annual simple interest, paid monthly coupled with an additional 35% paid at the end of the 36th month.

You will quickly see why Rainmaker Managed Living, Mortgage Group 41505, LLC, is an exceptionally wise investment secured by multi-million dollar commercial real estate. Rainmaker's legal staff has solid management skills and real estate ability that comes from a combined total of more than 30 years experience in real estate law as applied to the assisted living industry.

After reading about Rainmaker Managed Living, Mortgage Group 41505, LLC, you will have an opportunity to put your money to work in a safe investment secured by real estate with an exceptional above average yield.

25% Guaranteed Annual interest, paid the 1st of each month.

Additional return of 35% "ETF" Early Termination Fee, plus all of the principle on the 36th month, for a total return of 110% in 36 months "GUARANTEED".

The security of having your investment backed by "FULLY PRE-PAID LIFE CARE LEASES" in multi-million dollar commercial real estate properties in the New York City and Southern California markets that are mortgaged by your LLC. Your subscription is secured by the assigned T.I.C. interest in the property until you receive full repayment at which time the T.I.C. interest is released back to Rainmaker.

Risk free participation through Rainmaker Managed Living, Mortgage Group 41505, LLC, a New

<http://www.rainmakerlifecare.com/rainmakermortgage/>

6/10/06

Rainmaker Managed Living LLC

York limited liability company.

Having the wisdom and guidance of a respected legal team to manage and direct your program.

Rainmaker Managed Living, Mortgage Group 41505, LLC, Facts.

Let's face it; real estate investing is very profitable, especially in the New York City and Southern California real estate markets. Rainmaker Managed Living, Mortgage Group 41505, LLC, takes the headache out of owning real estate with a skilled staff of experts who receive their income only after you make 110% return on your principle.

Why invest with Rainmaker Managed Living, Mortgage Group 41505, LLC?

Rainmaker Managed Living, Mortgage Group 41505, LLC, inspects the properties.

Rainmaker Managed Living, Mortgage Group 41505, LLC, utilizes an in house professional management team to handle all the financial and legal concerns.

No managerial responsibilities.

Rainmaker Managed Living, Mortgage Group 41505, LLC, guarantees a minimum 25% annual rate of return paid monthly.

Rainmaker Managed Living, Mortgage Group 41505, LLC, works to minimize risks and maximize profits.

Rainmaker Managed Living, Mortgage Group 41505, LLC, seeks to obtain favorable returns for its members by tapping into potential real estate opportunities.

Finally, real estate investments are less volatile and risky than most common stocks and bonds, and real estate provides excellent portfolio diversification.

I thank you for taking the time to review the Rainmaker Managed Living, Mortgage Group 41505, LLC, program and invite you to call Rainmaker at 646-375-2348.

Rainmaker Managed Living LLC

**RAINMAKER MANAGED LIVING,
MORTGAGE GROUP, 41505 LLC**

A New York Limited Liability Company

**A LIMITED LIABILITY COMPANY, TARGETED FIRST POSITION MORTGAGE
PROGRAM WITH T.I.C. TENANCY IN COMMON SECURITY INTEREST**

**FOR INDEPENDENT LIVING, ASSISTED LIVING & ADULT LIVING
FACILITIES**

(Suitable for Cash Subscriptions and Self -Directed IRA participants only)

April 15, 2005

**Rainmaker Managed Living, Mortgage Group, 41505, LLC,
116 W. 23rd Street Suite 500
New York, NY 10011
(646) 375-2348**

**Operating Agreement for
Rainmaker Managed Living, Mortgage Group, 41505 LLC,
A New York Limited Liability Company**

**RAINMAKER MANAGED LIVING
MORTGAGE GROUP 41505, LLC**

April 15, 2005

A New York Limited Liability Company

**Operating Agreement for
Rainmaker Managed Living, Mortgage Group, 41505 LLC,**

Rainmaker Managed Living LLC

A New York Limited Liability Company

THIS OPERATING AGREEMENT is made and entered into as of April 15, 2005, by and among Rainmaker Managed Living, Mortgage Group, 41505 LLC, a New York LLC (the "Company") and the persons executing this Operating Agreement as Members of the Company and all of those who shall hereafter be admitted as Members (individually, a "Member" and collectively, the "Members") who hereby agree as follows:

WITNESSETH:

1. Whereas, the Members desire to enter into this agreement ("Operating Agreement" or "Agreement") for the purposes of governing the Company, to and for the sole purpose of investing in, purchasing, selling, granting, leasing or taking an option on buildings and lands solely for investment purposes and not as a trade. The Company shall not conduct any other business unless related to the adult living, assisted living, and/or other commercial businesses or the use of the associated real estate purchased by the members for any lawful residential, industrial or commercial use, unless approved by unanimous consent of all Members.

2. Whereas, the Members intend to operate the Business, appoint a person or persons to assume responsibility for certain management matters (the "Manager") and provide for the restriction on the transfers of ownership interests in the Company ("Interests").

NOW, THEREFORE, in consideration of the mutual premises below, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is agreed as follows:

I. ORGANIZATION

1. **Formation.** The Company has been organized as a STATE OF NEW YORK, LLC under and pursuant to the NEW YORK STATE LLC ACT, by the filing of Articles of Organization ("Articles") with the Department of State of the State of New York as required by the Act.

2. **Name.** The name of the Company shall be "Rainmaker Managed Living, Mortgage Group, 41505, LLC". The Company may also conduct its business under one or more assumed names, as operating needs may dictate in the future. Such assumed names shall be totally owned and controlled by Rainmaker Managed Living, Mortgage Group, 41505, LLC.

3. **Purposes.** The purpose of the Company is to engage in any activity for which an LLC may be formed under the Act for purposes only of advancing the Business as defined above. The Company shall have all the powers necessary or convenient to affect any purpose for

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which it is formed, including all powers granted by the Act, as set forth in the **RAINMAKER MANAGED LIVING, MORTGAGE GROUP, 41505, LLC, PROGRAM REPORT**

4. **Duration.** The Company shall continue in existence for the period fixed in the Articles of Organization for the duration of the Company of three (3) years, or until the Company shall be sooner or later dissolved and its affairs wound up in accordance with the Act or this Operating Agreement.

5. **Registered Office and Resident Agent.** The Registered Office and Resident Agent (Managing Member) of the Company shall be as designated in the initial Articles or any amendment thereof, as Alireza Dilmaghani, Esquire, Attorney at Law, General Counsel of the Corporate Legal Department for Rainmaker Managed Living, LLC, (646) 375-2348. The Registered Office and/or Resident Agent (Managing Member) may be changed from time to time. Any such change shall be made in accordance with the Act. If the Resident Agent (Managing Member) shall ever resign, the Company shall promptly seek a successor resident agent by giving written notice to the Members, and seeking a majority vote of the members as to whom such successor shall be.

6. **Intention for Company.** The Members have formed the Company as an LLC under and pursuant to the Act.

The Members specifically intend and agree that the Company shall not be, for legal purposes a partnership (including, a limited partnership) or any other venture, but shall be a LLC under and pursuant to the Act, desiring partnership tax treatment.

No Member or Manager shall be construed to be a partner in the Company or a partner of other Member, Manager, or person; and the Articles, this Operating Agreement, and the relationships created thereby and arising there from shall not be construed to suggest otherwise.

II. BOOKS, RECORDS AND ACCOUNTING

1. **Books and Records.** The Company shall maintain complete and accurate books and records of the Company's business and affairs as required by the Act and such books and records shall be kept at the Company's Registered Office, located within the Corporate Legal Department for Rainmaker Managed Living, LLC, 116 W. 23rd Street, Suite 500, New York, New York, 10011, (646) 375-2348.

2. **Fiscal year, accounting.** The Company's fiscal year shall be the calendar year. The particular accounting methods and principles to be followed by the Company shall be selected by the treasurer for the Company ("TREASURER") who is hereby designated as Liz Pamela Checo, of the Rainmaker Managed Living, LLC Compliance Department, 116

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W. 23rd Street, Suite 500, New York, New York, 10011, (646) 375-2348. The Accountant may be changed by written Notice of the then serving Manager, consented to in writing by at least Two (2) Members.

3. **Reports.** The Managers shall provide reports concerning the financial condition and results of operation of the Company and the Capital Accounts of the Members to the Members in the time, manner, and form as the Manager determines. Such reports shall be provided at least annually as soon as possible after the end of each calendar year and shall include a statement of each Member's share of profits and other items of income, gain, loss, deduction and credit.

4. **Member's Capital Accounts.** Separate Capital Accounts for each Member shall be maintained by the Company. Each Member's Capital Account shall reflect the Member's capital contributions and increases for the Member's share of any net income or gain of the Company. Each Member's Capital Account shall also reflect decreases for distributions made to the Member and the Member's share of any losses and deductions of the Company. Definition of Capital Account. A separate capital account shall be maintained for each Member or Assignee in accordance with the provisions below ("Capital Account"). Increases in Capital Account. Each Member's Capital Account may be increased by: The amount of money contributed by the Member to the Company. The fair market value of property contributed by the Member to the Company i.e., the net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under the Internal Revenue Code. If any property, other than cash, is contributed to or distributed by the Company, the adjustments to Capital accounts required by any applicable Treasury Regulation shall be made. The Member's share of the increase in the tax basis of Company property, if any, arising out of the recapture of any tax credit. Allocations to the Member of Profit. Allocations to the Member of income or gain as provided under this agreement or otherwise by Treasury Regulation. Decreases in Capital account. Each Member's Capital Account shall be decreased by, the amount of money distributed to the Member by the Company. The fair market value of property distributed to the Member by the Company i.e., net of liabilities secured by such distributed property that such Member is considered to assume or take subject to under the Internal Revenue Code. Allocations to the Member of Losses. Allocations to the Member of deductions, expenses, Non-recourse Deductions and Net Losses allocated to it pursuant to this Agreement, and the Member's share of Company expenditures which are neither deductible nor properly chargeable to Capital Accounts under the Internal Revenue Code or applicable Treasury Regulation or are treated as such expenditures under the Internal Revenue Code or applicable Treasury Regulation Non-Recourse Deductions" shall have the meaning set forth under the Internal Revenue Code or applicable Treasury Regulation. The Member's share of the decrease in the basis of the Company's property under the Internal Revenue Code or applicable Treasury Regulation arising from the allowance of any tax credit. Capital Account Transferee. In the event of a permitted sale or exchange of an interest in the Company, the Capital Account of the transferor shall become the Capital Account of the Transferee to the extent it relates to the transferred Interest in accordance with under the Internal Revenue Code or applicable Treasury Regulation.

The manner in which Capital Accounts are to be maintained pursuant to this Agreement is intended to comply with the requirements of Code Sec. 704(b) and the Regulations thereunder. It is the specific intent of the Members that all such further or different adjustments as may be required pursuant to Code Sec. 704 and any Regulations thereunder are made, so as to cause the allocations prescribed hereunder to be respected for tax purposes.

III. CAPITAL CONTRIBUTIONS

2. Additional Contributions. Other than the members initial capital contribution there will be no "INVOLUNTARY" additional capital contribution.

1. **Allocations.** Except as may be required by the Code as amended or by this Operating Agreement, net profits, net losses, and other items of income, gain, loss, deduction and credit of the Company shall be allocated among the Members in accordance with their Sharing Ratios.

2. Distributions. The Managers may make distributions to the Members on the first of each month. All distributions shall be made to the Members in accordance with their Sharing Ratios. Distributions shall be in cash (by trust account check) mailed to the member's address of record.

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3. Family Partnership Savings Provision. Notwithstanding anything in this Operating Agreement to the contrary, should any provision of this Operating Agreement, or any act of the parties, result in violation of the family partnership provisions of Code Sec. 704(e) or the regulations and cases there under, the Managers may amend this Agreement, or take any other actions reasonably necessary to prevent such violation, or to correct such violation.

V. DISPOSITION OF MEMBERSHIP INTERESTS

1. General. Every sale, assignment, transfer, exchange, mortgage, pledge, grant, hypothecation or other disposition of any Membership Interest shall be made only upon compliance with this Article. No Membership Interest shall be disposed of if the disposition would cause a termination of the Company under Sec 708 of the Internal Revenue Code of 1986, as amended; without compliance with any and all state and federal securities laws and regulations; and unless the assignee of the Membership Interest provides the Company with the information and agreements that the Managers may require in connection with such disposition, including but not limited to an executed counterpart of this Agreement.

No Member shall be entitled to assign, convey, sell, encumber, or in any way alienate all or any part of its Membership Interest in the Company and as a Member except with the prior written consent of a majority in the interest of the non-transferring Members, which consent may be given or withheld, conditioned, or delayed (as allowed by this Agreement or the Act), as the non-transferring Members may determine in their sole discretion. Transfers in violation of this provision shall only be effective to the extent of an assignment of such interest with only rights set forth in the following provision "Permitted Dispositions".

2. Permitted Dispositions. Subject to the provisions of this Article, a Member may assign such Member's Membership Interest in the Company in whole or in part. The assignment of a Membership Interest does not in itself entitle the assignee to participate in the management and affairs of the Company or to become a Member. Such assignee is only entitled to receive, to the extent assigned, the distributions the assigning Member would otherwise be entitled to, and such assignee shall only become an assignee of a Membership Interest and not a Substitute Member.

3. Admission of Substitute Members. An assignee of a Membership Interest shall be admitted as a Substitute Member and shall be entitled to all the rights and powers of the assignee only if the other Members unanimously consent. If admitted, the Substitute Member has, to the extent assigned, all of the rights and powers, and is subject to all of the restrictions and liabilities of a Member.

VI. MEETINGS OF MEMBERS

1. Voting. Except to the extent provided to the contrary in this Agreement, all Members shall be entitled to vote on any matter submitted to a vote of the Members. Notwithstanding the foregoing, the Members shall have the right to vote on all of the following: The

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dissolution of the Company pursuant to the provisions of this Operating Agreement that permit a dissolution of the Company upon the unanimous consent of the Members; The merger of the Company; A transaction involving an actual or potential conflict of interest between a Manager and the Company; An amendment to the Articles of Organization; The sale, exchange, lease or other transfer of all or substantially all of the assets of the Company other than in the ordinary course of business.

2. **Required Vote.** Unless a greater vote is required by the Act or the Articles of Organization, the affirmative vote or consent of a majority of the Sharing Ratios of all the Members entitled to vote or consent on such matter shall be required.

3. **Meetings.** An annual meeting of Members for the transaction of such business as may properly come before the Meeting, shall be held at such place, on such date and at such time as the Managers shall determine. Special meetings of Members for any proper purpose or purposes may be called at any time by the Managers or the holders of at least Ten Percent (10%) of the Sharing Ratios of all Members. The Company shall deliver or mail written Notice stating the date, time, place, and purposes of any meeting to each Member entitled to vote at the meeting. Such Notice shall be given no less than Ten (10) and no more than Sixty (60) days before the date of the meeting. All meetings of Members shall be presided over by a Chairperson who shall be a Manager. A Member may participate and vote at such meeting via telephone or Internet conference call.

4. **Consent.** Any action required or permitted to be taken at an annual or special meeting of the Members may be taken without a meeting, without prior notice, and without a vote, if consents in writing, setting forth the action so taken, are signed by the Members having no less than the minimum number of votes that would be necessary to authorize or take action were present and voted. Every written consent shall bear the date and signature of each Member who signs the consent. Prompt Notice of the taking of action without a meeting by less than unanimous written consent shall be given to all Members who have not consented in writing to such action.

VII. MANAGEMENT

1. **Management of Business.** The Company shall be managed by Alireza Dilmaghani, Esquire, (Managing Member) Attorney at Law, General Counsel of the Corporate Legal Department for Rainmaker Managed Living, LLC, 116 W. 23rd Street, Suite 500, New York, NY 10011, (646) 375-2348, so long as he is able and willing to serve. If Alireza Dilmaghani, shall ever resign, or be unable or unwilling to serve the Company shall promptly seek a successor Manager by giving written notice to the Members, and seeking a majority vote of the members as to whom such successor shall be. The terms, duties, compensation, and benefits, if any, of the Managers shall be as follows: Alireza Dilmaghani, Esq., shall receive compensation for serving as Manager as follows: One Dollar Annually. The duties of the Manager shall be those duties reasonably necessary to conduct the Business of the Company, and shall include, but not be limited to: Normal day to day management with distribution authority and annual reporting authority, and such other

2. Removal of Managers. Any Manager (Managing Member) may be removed at any time, with or without cause, by the affirmative vote of Seventy-Five (75%) of the Membership Interests in the Company then entitled to vote.

4. **Limitations.** Notwithstanding the foregoing and any other provision contained in this Operating Agreement to the contrary, no act shall be taken, sum expended, decision made, obligation incurred, or power exercised, by any Manager on behalf of the Company except by the consent of Seventy-Five (75%) of all Membership Interests with respect to: Any significant and material purchase, receipt, lease, exchange, or other acquisition of any real or personal property or business; The sale of all or substantially all of the assets and property of the Company; Any mortgage, grant of security interest, pledge, or encumbrance upon all or substantially all of the assets and property of the Company; Any merger; Any amendment or restatement of the Articles or of this Operating Agreement; Any matter which could result in a change in the amount or character of the Company's capital; Any change in the character of the business and affairs of the Company; The commission of any act which would make it impossible for the Company to carry on its ordinary business and affairs; Any act that would contravene any provision of the Articles or of this Operating agreement or the Act.

<http://www.rainmakerlifecare.com/rainmaker-portfolio/all/mc-portfolio.htm>

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faith, with care an ordinary prudent person in a like position would exercise under similar circumstances, and in a manner he or she reasonably believes to be in the best interests of the Company. A manager shall not be liable for any monetary damages to the Company for any breach of such duties except for a receipt of a financial benefit to which the Manager is not entitled; voting for or assenting to a distribution to Members in violation of this Operating Agreement or the Act; or a knowing violation of the law.

VIII. EXCULPATION OF LIABILITY: INDEMNIFICATION

1. Exculpation of Liability. Unless otherwise provided by law or expressly assumed, a person who is a Member or Manager, or both, shall not be liable for the acts, debts or liabilities of the Company.

2. Indemnification. Except as otherwise provided in this Article, the Company shall indemnify any Manager and may indemnify any employee or agent of the Company who was or is a party or is threatened to be made a party to a threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative, and whether formal or informal, other than an action by or in the right of the Company, by reason of the fact that such person is or was a Manager, employee or agent of the Company against expenses, including attorney's fees, judgments, penalties, fines, and amounts paid in settlement actually and reasonably incurred by such person in connection with the action, suit or proceeding, if the person acted in good faith, with the care an ordinary prudent person in a like position would exercise under similar circumstances, and in a manner that such person reasonably believed to be in the best interests of the Company and with respect to a criminal action or proceeding, if such person had no reasonable cause to believe such person's conduct was unlawful.

To the extent that a Member, employee, or agent of the Company has been successful on the merits or otherwise in defense of an action, suit, or proceeding or in the defense of any claim, issue, or other matter in the action, suit, or proceeding, such person shall be indemnified against actual and reasonable expenses, including attorney's fees, incurred by such person in connection with the action, suit, or proceeding and any action, suit or proceeding brought to enforce the mandatory indemnification provided herein. Any indemnification permitted under this Article, unless ordered by a court, shall be made by the Company only as authorized in the specific case upon a determination that the indemnification is proper under the circumstances because the person to be indemnified has met the applicable standard of conduct and upon an evaluation shall be made by a majority vote of the Members who are not parties or threatened to be made parties to the action, suit, or proceeding. Notwithstanding the foregoing to the contrary, no indemnification shall be provided to any Manager, employee, agent of the Company for or in connection with the receipt of a financial benefit to which such person is not entitled, voting for or assenting to a distribution to Members in violation of this Operating Agreement or the Act, or a knowing violation of law.

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IX. OTHER ACTIVITIES

Any Member and the Managers may engage in other business ventures of every nature, including, without limitation by specification, the ownership of another business similar to that operated by the Company. Neither the Company nor any of the other Members shall have any right or interest in any such independent venture or to the income and profits derived there from.

X. DISSOLUTION AND WINDING UP

1. **Dissolution.** The Company shall dissolve and its affairs shall be wound up on the first to occur of the following events: At any time specified in the Articles or this Operating Agreement; Upon the happening of any event specified in the Articles or this Operating Agreement; By the unanimous consent of all Members; Upon the death, withdrawal, expulsion, bankruptcy, or dissolution of a Member or the occurrence of any other event that terminates the continued membership of a Member in the Company unless within Ninety (90) days after the disassociation of membership, a majority in interest of the remaining Members consent to continue the business of the Company and to the admission of one or more Members as necessary.

2. **Winding Up.** Upon dissolution, the Company shall cease carrying on its business and affairs and shall commence the winding up of the Company's business and affairs and complete the winding up as soon as practicable. Upon the winding up of the Company, the assets of the Company shall be distributed first to creditors to the extent permitted by law, in satisfaction of Company debts, liabilities, obligations and then to Members and former Members first, in satisfaction of liabilities for distributions and then, in accordance with their Sharing Ratios. Such proceeds shall be paid to such Members within One Hundred Twenty (120) days after the date of winding up.

XI. MISCELLANEOUS PROVISIONS

1. **Terms.** Nouns and pronouns will be deemed to refer to the masculine, feminine, neuter, singular, and plural, as the identity of the person or persons, firm, or corporation may in the context require. The term "**Internal Revenue Code**" and/or "**Treasury Regulations**" shall refer to the **Internal Revenue Code of 1986**, as amended.

2. **Article Headings.** The Article headings and numbers contained in this Operating Agreement have been inserted only as a matter of convenience and for reference, and in no way shall be construed to define, limit, or describe the scope or intent of any provision of this Operating Agreement.

3. **Counterparts.** This Operating Agreement may be executed in several counterparts, each

Rainmaker Managed Living LLC

of which will be deemed an original but all of which will constitute one and the same.

4. **Entire Agreement.** This Operating Agreement constitutes the entire agreement among the parties hereto and contains all of the agreements among said parties with respect to the subject matter hereof. This Operating Agreement supersedes any and all other agreements, either oral or written, between said parties with respect to the subject matter hereof.

5. **Severability.** The invalidity or unenforceability of any particular provision of this Operating Agreement shall not effect the other provisions hereof, and this Operating Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

6. **Amendment.** This Operating Agreement may be amended or revoked at any time by a written agreement executed by all of the parties to this Operating Agreement, except where a lesser percentage of Membership Interests is permitted elsewhere in this Operating Agreement. No change or modification to this Operating Agreement shall be valid unless in writing and signed by all of the parties to this Operating Agreement.

7. **Notices.** Any Notice permitted or required under this Operating Agreement shall be conveyed to the party at the address reflected in this Operating Agreement and will be deemed to have been given, when deposited in the United States mail, postage pre-paid, or when delivered in person, or by a national overnight courier or by facsimile transmission (the receipt of which is confirmed by the sending fax unit printout).

8. **Binding Effect.** Subject to the provisions of this Operating Agreement relating to transferability, this Operating Agreement will be binding upon and shall inure to the benefit of the parties, and their respective distributee's heirs, successors and assigns.

9. **Governing Law.** This Operating Agreement is being executed and delivered in the State of New York and shall be governed by, construed, and enforced in accordance with the laws of the State of New York.

NOTE REGARDING METHOD OF OPERATION

The purpose of the Rainmaker Managed Living, Mortgage Group, 41505, LLC is to engage in the financing of the real estate used by any Rainmaker entity for independent living, assisted living, adult living, life care and nursing home properties by use of first position mortgages on such properties. Rainmaker Managed Living, Mortgage Group, 41505, LLC, will be a targeted blind pool that will finance properties which have yet to be optioned, placed under contract, acquired or owned and managed by other Rainmaker Entities, which are listed in the "OPERATIONAL FLOW CHART" section of the program report. The LLC will occasionally be compelled to invest in other commercial, industrial or residential property which may be an adjunct to space containing the facility intended to be used for assisted living, adult living and/or nursing home operations. An example would be a 10-story building wherein the first floor, or a portion of a structure is commercial space and the remaining floors are a former hotel, which could be converted to use as an assisted living, adult living and/or nursing home operation. Fractional member interests may be

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purchased, with such fractional interests being made to equal one position as part of the overall 35 members. The Rainmaker Managed Living, Mortgage Group, 41505, LLC will have a Tenancy In Common, [T.I.C.] security interest guaranty in multimillion dollar commercial real estate properties in the New York City and Southern California markets that are mortgaged by Rainmaker Managed Living, Mortgage Group, 41505, LLC. Your subscription is secured by the assigned T.I.C. interest in the property until you receive full repayment at which time the T.I.C. interest is re-assigned to Rainmaker. Upon satisfactory payment of the mortgages placed herein the members of the LLC will no longer have any interest in the property or the operations conducted on the property. This is a targeted blind pool for exclusive use of Rainmaker entities and is not a bank or trust company dealing with the public. This LLC will terminate after three years as stated supra or the term of the LLC may be increased in tenure by vote of the members.

IN WITNESS WHEREOF, the parties hereto make and execute this Operating Agreement on the dates set below their names, to be effective on the date first above written.

WITNESSETH:

**Rainmaker Managed Living
Mortgage Group, 41505, LLC, 4/15/05**

/s/ Alireza Dilmaghani

Alireza Dilmaghani, Esq. Managing Member
Rainmaker Managed Living, Mortgage Group, 41505 LLC, [California]
Rainmaker Corporate Legal Department,
116 W. 23rd Street, Suite 500
New York, New York, 10011,
Telephone: (646) 375-2348.

RAINMAKER MANAGED LIVING MORTGAGE GROUP 41505 LLC

**A LIMITED LIABILITY COMPANY
TARGETED FIRST POSITION MORTGAGE PROGRAM, WITH T.I.C. TENANCY
IN COMMON SECURITY INTEREST**

FOR INDEPENDENT LIVING, ASSISTED LIVING & ADULT LIVING

<http://www.rainmakerlifecare.com/rainmakermortgage/mortgagegroup41505.htm>

4/15/05

Rainmaker Managed Living LLC

FACILITIES

(Suitable for Cash Subscriptions and self directed IRA participants)

April 15, 2005

**Rainmaker Managed Living, Mortgage Group, 41505, LLC,
C/O: Rainmaker Managed Living LLC
Corporate Legal Department
116 W. 23rd Street, Suite 500
New York, NY 10011
(646) 375-2348**

“PROGRAM REPORT”

This program report describes the business plan for Rainmaker Managed Living, Mortgage Group, 41505 LLC, a New York Limited Liability Company.

1000 FULL MEMBERSHIP UNITS AT \$25,000.00 PER UNIT. TOTAL OFFERING TWENTY FIVE MILLION DOLLARS (\$25,000,000.00)

Rainmaker Managed Living, Mortgage Group, 41505 LLC, a New York Limited Liability Company, is designed as a targeted, blind pool, first position “PRIVATE” mortgage financing program, which will invest in assisted living, adult living and nursing home facilities operated by RAINMAKER entities only and shall not invest in any other property associated with any other owner except those properties owned and/or managed by a RAINMAKER entity. This LLC is not to be considered a Bank or Trust Company dealing with the public in any manner.

OPERATIONAL FLOW CHART: Please read this section carefully as it is important that you understand the complexities of owning and LICENSING Independent Living, Assisted Living and Nursing Home properties.

The Rainmaker Group at the present time operates in two states. New York and California. The operations plan calls for expansion on a nationwide basis over the next five (5) years. The Rainmaker Group is or will be engaged in the operation of three types of facilities. Independent Living, Assisted Living and Nursing Homes, which will offer standard and specialized acute care options.

Each and every state has a stringent set of rules regarding who may operate a

Rainmaker Managed Living LLC

LICENSED facility. Keeping these license requirements in mind Rainmaker has structured its operations to meet these licensing needs. Rainmaker uses a three-tier approach. The Property is owned by the individual LLC for the state in which it is located. At this time there are two property LLCs. RAINMAKER MANAGED LIVING, LLC (CALIFORNIA) AND RAINMAKER MANAGED LIVING, LLC (NEW YORK)

The California LLC will own any California property and the New York LLC will own any New York property. Additionally, there are two general partnerships, which operate as DBAs. Rainmaker Realty Partners New York, (a New York State DBA) and Rainmaker Realty Partners California, (a California State DBA) These DBAs own the businesses contained on the property in each state.

The DBAs are controlled by Alireza Dilmaghani. Mr. Dilmaghani is a licensed New York State attorney and Real Estate Broker. The DBAs have a contractual arrangement wherein all profits are turned over to their respective companion LLC for the state the DBA operates in. The DBAs apply for and hold the state license to operate the facility. This plan allows for a single individual (Mr. Dilmaghani) to hold the license to operate the facility and alleviates the need for each member of the LLC to be on the license.

If this operational plan were not utilized then each member would have to give each state the permission to check the individual members background, check the members credit, and the members would each have to appear in person to take pictures and give fingerprints and personal financial statements to each state licensing authority. Additionally no license would be granted until all the members were vetted and approved causing needless massive delay and confusion.

An agreement is in place between the DBAs and the LLCs, that all profits will be given to the LLCs by the DBAs and Mr. Dilmaghani will not be compensated in any manner for his services as licensee. Additionally the contract contains provisions which turn over all rights of ownership in the business to the LLCs in the event the LLC members vote to remove Mr. Dilmaghani. Finally each DBA and LLC has an interchangeable agreement wherein all profits from the four entities will be pooled and shared amongst the members. Additionally Rainmaker Managed Living, Mortgage Group, 41505, LLC will have a Tenancy In Common, [T.I.C.] security interest guaranty in multimillion dollar commercial real estate properties in the New York City and Southern California markets that are mortgaged by Rainmaker Managed Living, Mortgage Group, 41505, LLC. Your subscription is secured by the assigned T.I.C. interest in the property until you receive full repayment at which time the T.I.C. interest is re-assigned to Rainmaker. Upon satisfactory payment of the mortgages placed herein the members of the LLC will no longer have any interest in the property or the operations conducted on the property.

Rainmaker Managed Living LLC

The Rainmaker Group operates two additional LLC entities which are the subject of this program. Rainmaker Managed Living Mortgage Group 41505, LLC and Rainmaker Managed Living SMHC Kings Park, LLC. These two entities are separate and apart from the operating entities set forth supra. These two entities raise capital to finance property acquisition for use by the Rainmaker Group of companies. Members in these two entities have no ownership interest in the property and/or business. Members in these two entities are holders of first position mortgages, which carry a 30-year amortization and three-year payoff as describe in the program report. These entities offer an exceptional payout over a three-year period. The members of these entities are fully secured by a first position mortgage on the real estate utilizing such mortgage funds.

REGISTRATION WITH STATE OR FEDERAL SECURITIES AGENCY

The target, blind pool, first position mortgage program described herein is not considered a public offering or a private offering of securities or a limited partnership exempt from registration under any State or Federal securities act as the subscribers herein are subscribers with full control over any property upon which a mortgage shall be placed. It is the opinion of the managing member that based upon the fact that all members in the Rainmaker Managed Living,Mortgage Group,41505, LLC will have a Tenancy In Common, [T.I.C.] security interest guaranty in multimillion dollar commercial real estate properties in the New York City and Southern California markets that are mortgaged by Rainmaker Managed Living,Mortgage Group,41505, LLC, the assigned T.I.C. interest in the property renders all subscribers as possessing full control over any property upon which a mortgage shall be placed that such control makes the subscriber a controlling member, not a passive investor under the laws of all fifty (50) states, and renders any such registration under any Federal or State Blue Sky registration or securities act non-applicable as this program is a Limited Liability Company not a third party trust, limited partnership, stock offering or note offering.

WHAT IS INDEPENDENT, ASSISTED & ADULT LIVING?

Independent Living is for people who need no care. Assisted living facilities are for people needing assistance with Activities of Daily Living (ADL) but wishing to live as independently as possible for as long as possible. Assisted living exists to bridge the gap between independent living and nursing homes. Residents in assisted living centers are not able to live by themselves but do not require constant care either. Assisted living facilities offer help with ADL such as eating, bathing, dressing, laundry, housekeeping, and assistance with medications. Many facilities also have centers for medical care; however, the care

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offered may not be as intensive or available to residents as the care offered at a nursing home. Assisted living is not an alternative to a nursing home, but an intermediate level of long-term care appropriate for many seniors.

Rainmaker Managed Living, Mortgage Group, 41505, LLC,

Overall Objectives and Strategy

Investment Objective: Rainmaker Managed Living, Mortgage Group, 41505, LLC, shall hold first position mortgages on properties owned and/or managed by other Rainmaker entities. The Rainmaker Managed Living, Mortgage Group, 41505, LLC, program seeks favorable returns primarily through income from real estate investments as applied to facilities owned by other Rainmaker entities. Rainmaker Managed Living, Mortgage Group, 41505, LLC, will not own the property. Rainmaker Managed Living, Mortgage Group, 41505, LLC, will hold a first position mortgage on the property only and upon satisfactory repayment of such first position mortgage Rainmaker Managed Living, Mortgage Group, 41505, LLC, shall cease to have any connection with the property or the operations conducted on the property.

Investment Strategy: Rainmaker Managed Living, Mortgage Group, 41505, LLC, will invest 100 percent of its assets directly in first position mortgages for facilities operated by Rainmaker entities such as independent living, assisted living, adult living and nursing home real estate owned and other real estate operated by Rainmaker entities only. Other than the mortgage Rainmaker Managed Living, Mortgage Group, 41505, LLC, will have no other interest in the property.

Rainmaker Entities are those Independent Living, Assisted Living, Adult Living, Life Care and Nursing Home Facilities which are now or shall in the future be acquired and/or operated by Rainmaker entities (see operation flow chart). Rainmaker Managed Living, Mortgage Group, 41505, LLC, will "NOT" invest the funds of Rainmaker Managed Living, Mortgage Group, 41505, LLC, held in escrow by the managing member of Rainmaker Managed Living, Mortgage Group, 41505, LLC, in any property which is not owned and/or operated by a Rainmaker Entity. ALL INVESTMENTS MADE BY RAINMAKER MANAGED LIVING, MORTGAGE GROUP, 41505, LLC, SHALL BE FIRST POSITION MORTGAGES ONLY UNLESS SUBROGATED POSITIONS ARE AGREED TO IN ADVANCE BY A MAJORITY OF THE MEMBERS. All RAINMAKER MANAGED LIVING, MORTGAGE GROUP, 41505, LLC, funds will be held in an attorney's trust account at Commerce Bank, 1995 Broadway, New York, NY 10023.

Rainmaker Managed Living, Mortgage Group, 41505, LLC, is a blind pool mortgage fund

<http://www.rainmakerlifecare.com/rainmakermanagedliving/mortgagegroup41505.htm>

6/18/2007

Rainmaker Managed Living LLC

which will hold first position mortgages on various assisted living, adult living and nursing home facilities located throughout the United States primarily focused in New York City and Southern California.

Rainmaker Managed Living, Mortgage Group, 41505, LLC., plan of operation shall be to operate in a manner designed to return to the member a total of 110% simple interest over three years (36 Months). The plan includes 25% annual interest paid monthly from interest only mortgage payments made by Rainmaker entities.

The mortgages initiated by the April 15, 2005, shall be three (3) year instruments with a payout comprised of 35 monthly simple interest only payments and a 36th month final payment consisting of an ETF Early Termination Fee of 35% and repayment of the principle.

Each and every first position mortgage loan made by the LLC shall carry a special interest only payment provision which will require an additional 35% ETF Early Termination Fee above and beyond the full repayment of the original mortgage loan. Terms may be extended, suspended, modified or renegotiated upon a vote of a 51% majority of members of record after a vote is requested by the managing member as to any extension, suspension, modification or renegotiation.

Rainmaker Managed Living, Mortgage Group, 41505, LLC, will acquire first position mortgages to finance assisted living facilities, life care contract facilities and nursing home facilities owned and operated by other Rainmaker entities. These first position mortgages will have a 30 year amortization subject to an ETF (Early Termination Fee) provision of 36 months resulting in a three year payout. There will be interest only payments in the first 36 months and a final payoff at the end of the 36th month. Thereafter the partnership will cease to exist, unless extended by a vote of the members upon request from the managing member.

Rainmaker Managed Living, Mortgage Group, 41505, LLC, will execute a 30 year amortized mortgage at 9.50 percent interest. The mortgage will be structured wherein the Rainmaker entity which owns the property will pay to Rainmaker Managed Living, Mortgage Group, 41505, LLC, on the first day of each month "ACCELERATED" interest only payments of \$25,000.00 per month for each One Million Dollars borrowed for a period of 36 months. On the last business day of the 36th month the mortgage will be retired and an early termination fee of 35% of the principle hereinafter referred to as the ETF will be assessed.

On each One million Dollars loaned Rainmaker Managed Living, Mortgage Group, 41505, LLC, will receive Three Hundred Thousand Dollars [\$300,000.00] annually of which Two hundred and Fifth Thousand Dollars [\$250,000.00] will be distributed to the members. The remaining balance will be used to manage Rainmaker Managed Living, Mortgage Group, 41505, LLC, and pay expenses.

Rainmaker Managed Living LLC

Upon termination at the end of the 36th month Rainmaker Managed Living, Mortgage Group, 41505, LLC, will receive the principle of One Million Dollars [\$1,000,000.00] and the ETF of Three Hundred and Fifty Thousand Dollars. [\$350,000.00]

The One Million Dollars [\$1,000,000.00] principal and the ETF of Three Hundred and Fifty Thousand Dollars. [\$350,000.00] will be distributed to Rainmaker Managed Living, Mortgage Group, 41505, LLC, members accordingly pursuant to the number of units held in the LLC.

GRANDFATHER CLAUSE FOR SUBSEQUENT LLC PARTICIPATION

Thereafter in the event any new MORTGAGE RELATED LLC is created the original members in the existing LLC will be offered right of first refusal to subscribe for units before the units are offered to new members.

WHO IS THE MANAGING MEMBER?

Rainmaker Managed Living, Mortgage Group, 41505, LLC, is managed by Alireza Dilmaghani, Esquire, Attorney at Law, General Counsel with the Rainmaker Managed Living, LLC, Corporate Legal Department.

Rainmaker Managed Living, LLC, Corporate Legal Department is located at 116 W. 23rd Street, corner of Sixth Avenue, Suite 500, New York, NY 10011. The area is known as Chelsea and is a hub of legal and commercial activity in Manhattan.

EVIDENCE OF LLC MEMBERSHIP

Each member shall receive a certificate of ownership, carrying the "SEAL" of Rainmaker Managed Living, Mortgage Group, 41505, LLC, as to the members subscription position(s) regarding number of membership units held in Rainmaker Managed Living, Mortgage Group, 41505, LLC. These units may be subscribed for by anyone. The units are suitable for IRA self managed accounts.

MEMBER VOTING RULES

Rainmaker Managed Living, Mortgage Group, 41505, LLC, shall submit all questions except the placement of first position mortgages to a vote of the membership. A vote of 51% of existing members shall carry a question submitted. Any less than 51% shall deem the question submitted rejected by the members. Rejected questions may be resubmitted at any time according to the rules set forth herein.

RISKS & INDEMNIFICATION

The value of your units in the Rainmaker Managed Living, Mortgage Group, 41505, LLC, will not go up and down based on the value of Rainmaker Managed Living, Mortgage Group, 41505, LLC, assets and the income the assets generate. All mortgages shall be formulated to hold the value of the members original subscription. (\$25,000.00) per unit. In addition insurance policies may be used to further solidify the safety of the members subscription. The potential risk associated is minimal based upon the

Rainmaker Managed Living LLC

experience and operating plan of the managing member.

RAINMAKER MANAGED LIVING, MORTGAGE GROUP, 41505, LLC,

BLANKET PROTECTION

Your risk is limited to the value of your units. Rainmaker Managed Living, Mortgage Group, 41505, LLC, is a limited liability company and as such your risk is minimized by the law of the State of New York as applied to Limited Liability Companies.

INABILITY TO WAIVE COLLECTION

Members in the LLC cannot waive monthly interest payments or any other quarterly, annual or final mortgage payoff distribution. Checks are sent automatically to each member of record.

EVIDENCE OF MEMBERS POSITION IN ALL HOLDINGS

Each mortgage negotiated by Rainmaker Managed Living, Mortgage Group, 41505, LLC, shall be filed in the name of Rainmaker Managed Living, Mortgage Group, 41505, LLC, with the applicable recording authority wherein the property is located. Attached to the mortgage instrument filing made by Rainmaker Managed Living, Mortgage Group, 41505, LLC, will be an addendum listing the names and addresses of each member who holds an interest in Rainmaker Managed Living, Mortgage Group, 41505, LLC,

OPERATIONS CONSIDERATIONS

The Portfolio and the operations to be conducted by Rainmaker Managed Living, Mortgage Group, 41505, LLC, are subject to normal business caveats such as bankruptcy, and force majeure events such as fires, natural disasters, acts of god, and terrorism events. If any of these events occur losses may result. The managing member based upon his own expertise and the expertise of his staff has crafted a business plan to anticipate and guard against such events as much as such events can be anticipated and guarded against. The Rainmaker Managed Living, Mortgage Group, 41505, LLC, program will require all tenants in mortgaged facilities under loans from Rainmaker Managed Living, Mortgage Group, 41505, LLC, to be fully insured and compliant with all Town, City, County, State, and Federal regulations relating to any and all safety issues.

The issues include but are not limited to all federal, state and local laws and regulations relating to environmental protection and human health and safety. These laws and regulations govern wastewater discharges, air emissions, operation and removal of underground and aboveground storage tanks, use, storage, and disposal of hazardous materials, and the remediation of contamination associated with disposals.

This liability is without regard to fault for, or knowledge of, the presence of such substances. A landowner may be held liable for hazardous materials brought onto the property before it acquired title and for hazardous materials that are not discovered until after it sells the property. Similar liability may

Rainmaker Managed Living LLC

occur under applicable state law.

Additionally, the presence of these substances or the failure to properly remove these substances may affect the ability of the members to sell or rent a Property or to use a Property as collateral for future refinancing of the Loan. Rainmaker Managed Living, Mortgage Group, 41505, LLC, does not make any representations to the members regarding the absence of hazardous substances on any property. It is anticipated that the due diligence of the Managing member in the mortgage placement process will reveal any such substance and result in the rejection of the mortgage by the managing member.

If any hazardous materials are found at any time within any portion of a Property in violation of law, Rainmaker Managed Living, Mortgage Group, 41505, LLC, may be jointly and severally liable for all cleanup costs, fines, and penalties. This potential liability will continue after the owner or tenants sell their interests and may apply to hazardous materials present within a Property before the owners or tenants acquired their interests. The presence of hazardous substance contamination could adversely affect the financial viability of a Property and, in extreme cases, a Property could be rendered worthless and Rainmaker Managed Living, Mortgage Group, 41505, LLC, could be obligated to pay cleanup costs. It is anticipated that the due diligence of the Managing member in the mortgage placement process will reveal any such substance and result in the rejection of the mortgage by the managing member.

Rainmaker Managed Living, LLC, April 15, 2005, will use every reasonable investigatory tool at its disposal as part of the Rainmaker Managed Living, Mortgage Group, 41505, LLCs business plan in an effort to determine if such hazards exist. It is of the opinion of the managing member that this potential liability will not occur.

RAINMAKER MANAGED LIVING, MORTGAGE GROUP, 41505, LLC

APRIL 15, 2005

IS NOT A TAX SHELTER

Rainmaker Managed Living, Mortgage Group, 41505, LLC, is a profit making venture and will offer very little tax benefits to the members as applied to sheltering active or passive income. Rainmaker Managed Living, Mortgage Group, 41505, LLC, will invest in first position mortgages which may offer some tax benefits and should such tax benefits materialize they will be passed through to the members according to equal division rules regarding number of units held divided by number of members of record at the time of the pass through.

LIQUIDITY OF UNITS

Rainmaker Managed Living, Mortgage Group, 41505, LLC, will repurchase and/or arrange liquidation of any amount of units from a member at any time after activation of Rainmaker Managed Living, Mortgage Group, 41505, LLC.(activation is described as full subscription of all \$25 Million dollars in units) and completion of placement of the total \$25 million dollars in first position mortgages.

In certain events wherein all the funds in escrow have been used to purchase first position mortgages in properties, the managing partner may be forced to borrow against a property or resell units tendered to third parties causing a possible delay in redeeming units for cash.

Rainmaker Managed Living LLC

The member may sell units to another person or entity without the approval of Rainmaker Managed Living, Mortgage Group, 41505, LLC, as long as an offer to purchase is first made to Rainmaker Managed Living, Mortgage Group, 41505, LLC, and its managing partner and all members of record through the e-mail communications system. In the event of an offer under right of first refusal the managing member shall have first option and thereafter the equity partners shall have first come, first served option for a period not to exceed ten (10) business days from the time the redeeming member offers the units for repurchase on the e-mail communications system).

VISITING FACILITIES

Rainmaker Managed Living, Mortgage Group, 41505, LLC, members are encouraged to visit facilities wherein Rainmaker Managed Living, Mortgage Group, 41505, LLC, holds mortgages. Members are requested to keep in mind that clients come to Rainmaker facilities under the exclusive Tenancy in Common (TIC) program to retire in luxury and with the sense of security only Rainmaker can offer. These clients pay Rainmaker entities a minimum of \$250,000.00 to retire in a carefree setting with no distractions. Rainmaker clients also demand security and peace and quiet. Rainmaker facilities are distinct in that they are not open to the public. We discourage any visit to any facility unless management is aware of the visit. We understand that members (or prospective members) of the Rainmaker Managed Living, Mortgage Group, 41505, LLC, may have a desire to visit facilities as they are placed in the Rainmaker Managed Living, Mortgage Group, 41505, LLC, portfolio of mortgage assets. The Rainmaker entities which own the facilities have a guided visitation program wherein prospective or current members of the Rainmaker Managed Living, Mortgage Group, 41505, LLC, will be taken to a facility by management staff after presenting themselves at our law firm offices in New York or Los Angeles. There are no exceptions to these rules as we have a contract regarding these security measures with our clients that we must abide by. If you are seriously considering a visit to a Rainmaker facility, please call the East Coast or West Coast offices to arrange for a tour.

E-MAIL COMMUNICATIONS SYSTEM

All communications regarding mortgage sale and/or acquisition or repurchase of units or general business between the members and the managing member and Rainmaker Managed Living, Mortgage Group, 41505, LLC, will be via the Rainmaker Managed Living, Mortgage Group, 41505, LLC, E-Mail communications system.

MORTGAGEMEMBERS@AOL.COM

Each and every member of Rainmaker Managed Living, LLC, April 1, 2005, is requested to maintain an E-mail account and report such E-mail address to Rainmaker Managed Living, Mortgage Group, 41505, LLC, and the managing member. Distributions of all reports and transactions except for monetary payment transactions will be via the E-mail communications systems. In the event a member desires mail only in place of the e-mail system the member is advised that he/she/it will receive their reports and advisements in a fashion much slower than other partners who utilize the e-mail system. Any delay, inability to record a vote, or loss due to the slow movement of surface mail, is the sole responsibility of the partner.

Rainmaker Managed Living LLC

DEATH OF A MEMBER OR DISPUTE REGARDING A MEMBER

In the event a member's shall become incapacitated or deceased, the member's interests shall be first governed by the member's will or written directive and thereafter subject to the intestacy laws in the member's state of residence. In the event of any dissolution of a marriage, partnership, business relationship, or any type or form of legal dispute for any reason whatsoever, Rainmaker Managed Living, Mortgage Group, 41505, LLC, shall not be held responsible except for the original investment value per unit for units subscribed, and any accumulated interest or distribution to date which has yet to be distributed.

During the transition phase of the estate or dissolution, all interest payments and quarterly distributions or distributions from a sale or transfer of a property shall continue to the estate trustee or court ordered trustee. If no such trustee is appointed, such funds will be distributed in accordance with the directive of any court having control upon application by the managing member to the court for an order of distribution.

PAYMENT TRANSACTIONS

The sending or receiving of any cash, check, money order or monetary instrument either to or from the managing members shall be by United States mail or a generally recognized commercial package courier. Payments sent by the managing partner shall be sent to the address listed on the last page of this report (the subscription page) and payments sent to:

**Rainmaker Managed Living
Mortgage Group 41505 LLC,
Rainmaker Managed Living, Corporate Law Department,
116 W. 23rd Street, Suite 500,
New York, New York, 10011.**

CONSTRUCTION OF THIS DOCUMENT

Rainmaker Managed Living, Mortgage Group, 41505, LLC, is organized under the Limited Liability Company Act of the State of New York and will be governed by same. In the event Rainmaker Managed Living, Mortgage Group 41505 LLC, shall utilize a DBA in connection with activities engaged in by Rainmaker Managed Living, Mortgage Group, 41505, LLC, such DBA shall also be governed by the laws of the State of New York. Any portion of this document held unenforceable by a court of law shall not affect the surviving portions of the document. Any changes in the management rules of Rainmaker Managed Living Mortgage Group 41505 LLC, shall be approved by majority vote of the members of record at the time the change is presented for an approval vote.

Rainmaker Managed Living LLC

THE REPORT IN ITS ENTIRETY

This report constitutes the agreement between the members and the managing member in its entirety. No other verbal or written representation is of any force or effect.

QUESTIONS

In the event you have any questions, please feel free to call:

646-375-2348

Dated: April 15, 2005

/s/ Alireza Dilmaghani

By: _____
Alireza Dilmaghani
Managing Member
Rainmaker Managed Living
Corporate Legal Department
116 W. 23rd Street, Suite 500
New York, NY 10011
646-375-2348

Rainmaker Managed Living LLC

**RAINMAKER MANAGED LIVING, MORTGAGE GROUP, 41505,
LLC**

A New York Limited Liability Company

April 15, 2005

Subscription Agreement

Rainmaker Managed Living, Mortgage Group, 41505, LLC

A New York Limited Liability Company

The undersigned hereby subscribes to purchase _____ membership unit(s) in the amount of \$ 25,000.00. I understand that proceeds from this Subscription Agreement will be used by Rainmaker Managed Living, Mortgage Group 41505, LLC, to purchase first position mortgages in Real Estate to be used for assisted living, adult living or nursing home operations operated by Rainmaker entities only and for no other purpose.

I have tendered with this agreement the sum of _____ THOUSAND DOLLARS as payment
(Check No: _____) [Leave blank if funds are wired]

I have read the operating agreement and program report for the Rainmaker Managed Living, Mortgage Group 41505, LLC, and agree to all of the conditions contained in the operating agreement for Rainmaker Managed Living, Mortgage Group 41505, LLC, (New York) and agree to be bound by same.

This Subscription Agreement, together with the conditions contained in the operating agreement for Rainmaker Managed Living, Mortgage Group 41505, LLC, constitutes the entire agreement between the parties, and supersedes any prior written or oral agreement(s).

I understand that my monthly interest checks will be sent by First Class U.S. Mail on the last business day of the month and may take 3 to 5 days for delivery coast to coast.

MAKE YOUR BANK CHECK PAYABLE TO: RAINMAKER MANAGED LIVING, LLC, and
EXPRESS MAIL TO: Rainmaker Managed Living, LLC, 116 W. 23rd Street, Suite 500, New York, NY
10011 (646) 375-2348

MEMBER INFORMATION:

X_____ X_____

Members Name'(s):

<http://www.rainmakerlifecare.com/rainmakermortgage/llc/subscription-agreement.htm>

4/10/2005

Ruinmaker Managed Living LLC

Members Address:

Members City/State/Zip:

Members SS#:

Members Telephone/AC:

<http://www.rainmakerlifecare.com/rainmakermortgage/specials/subscribe.aspx>

ADDENDUM SEVEN

TITLE REPORTS



Property Report

AFF Property Information Report

Subject Property Location

125 W MAIN ST, KINGS PARK, NY 11754-1607

County: **SUFFOLK NY**

Property Use: Homes (retired; handicap; rest; convalescent; nursing)

Parcel Number: 0800-012.00-02.00-010.000

Census Tract: 361031347.049003

Zoning:

Thomas Bros Pg-Grid:

Current Owner:

Owner Name: **SMAH CORP**

Assessment Year: **2004**

Care Of Name:

Mailing Address: 121-125 W MAIN ST, KINGS PARK, NY 11754-1607

County Tax & Assessment:

Assessment Year: **2004**

Assd Land Value: **\$535**

Assd Improvement: **\$15,375**

Total Assessed Value: **\$15,910**

Assessee Name: **SMAH CORP**

Mailing Address:

Market Value Year:

Market Land Value:

Market Improvement Value:

Total Assessor Market Value:

121-125 W MAIN ST

KINGS PARK, NY 11754-1607

Tax Rate Code Area: **473405**

Tax Year: **2004**

Total Tax Amount: **\$20,998**

Delinquent Year:

Tax Account ID: **00010000**

Homeowner's Exemption:

Tax Exemptions:

Assessment Legal Description

District: 0800

Abbreviated Description: 12.-2-10 *1651 L 1 & PT L 2 NINEVIEW

City/Muni/Twp: SMITHTOWN

Property Characteristics:

Lot Size: **30,056 SF**

Building Area:

Year Built:

Number of Buildings:

Number of Units:

Number of Stories:

Style:

Bedrooms:

Baths:

Partial Baths:

Number of Rooms:

Garage Type:

Number of Cars:

Basement:

Foundation:

Pool:

Fireplace:

Type Const:

Ext Walls:

Heating:

A/C:

Roof Cover:

Elevator:

No Comparable Sales Found

The Subject Property information report will provide all the information available to us from public records for the address listed above. In addition to any recent sales data and mortgage information, it will include, where available, the physical characteristics of the property.

Information regarding the physical characteristics of a given property, such as living area, year built, bedrooms baths etc., and previous sales information are obtained from public record and reported as is. As such, they will vary in content and completeness from county to county and state to state.

Further, such information has not been verified by this service through site inspection and may be subject to errors due to building additions or deletions or any other changes as well as inaccurate reporting by previous owners, agents or the public agency.

Liens

No other liens located in electronic databases. Be aware that certain liens are only available through an in-person visit to the records office.

<http://www.titlesearch.com/0605c/hminkow0615.htm>

Property Detail Report

For Property Located At
125 W MAIN ST, KINGS PARK NY 11754-1607

Owner Information:
Owner Name: SMAH CORP
Mailing Address: 121-125 W MAIN ST, KINGS PARK NY 11754-1607 C015
Phone Number: Vesting Codes: / /

Location Information:
Legal Description: 13-520076 TC-63 *1651 L 1 & PT L 2 NINEVIEW
County: SUFFOLK, NY APN: 0800-012-00-02-00-010-00G
Census Tract/Block: 1347 04 / 9 Alternate APN:
Township-Range-Sect: Subdivision:
Legal Book/Page: Map Reference: 12 / 0800-012
Legal Lot: 10 Tract #:
Legal Block: 2 School District: 473405
Market Area: Munic/Township: SMITHTOWN TOWN
Neighbor Code:

Owner Transfer Information:
Recording/Sale Date: / Deed Type:
Sale Price: 1st Mtg Document #:
Document #:

Last Market Sale Information:
Recording/Sale Date: 09/21/1983 / 1st Mtg Amount/Type: /
Sale Price: \$225,000 1st Mtg Int. Rate/Type: /
Sale Type: 1st Mtg Document #:
Document #: 9429-245 2nd Mtg Amount/Type: /
Deed Type: BARGAIN & SALE DEED 2nd Mtg Int. Rate/Type: /
Transfer Document #: Price Per SqFt:
New Construction: Multi/Split Sale: MULTIPLE
Title Company:
Lender:

Prior Sale Information:
Prior Rec/Sale Date: / Prior Lender:
Prior Sale Price: Prior 1st Mtg Amt/Type: /
Prior Document #: Prior 1st Mtg Rate/Type: /
Prior Deed Type:

Property Characteristics:

Gross Area:	Parking Type:	Construct Type:
Living Area:	Garage Area:	Heat Type:
Tot Adj Area:	Garage Capacity:	Exterior wall:
Above Grade:	Parking Spaces:	Porch Type:
Total Rooms:	Basement Area:	Patio Type:
Bedrooms:	Finish Bsmnt Area:	Pool:
Bath(F/H): /	Basement Type:	Air Cond:
Year Built / Elf: /	Roof Type:	Style:
Fireplace:	Foundation:	Quality:
# of Stories:	Roof Material:	Condition:
Other Improvements:		

Site Information:

Zoning:	Acres:	0.69	County Use:
Flood Zone:	Lot Area:	30,056	State Use:
Flood Panel:	Lot Width/Depth:	x	Site Influence:
Flood Panel Date:	Res/Comm Units:	/	Sewer Type:
Land Use:			Water Type:

Tax Information:

Total Value:	\$15,910	Assessed Year:	2003	Property Tax:	\$20,998.23
Land Value:	\$535	Improve %:	097%	Tax Area:	473405
Improvement Value:	\$15,375	Tax Year:	2004	Tax Exemption:	
Total Taxable Value:					

Transaction History Report

For Property Located At
125 W MAIN ST, KINGS PARK NY 11754-1607

TRANSACTION HISTORY

History Record #: 1

Sale:

Sale Recording Date:	09/21/1983	Sale Price:	\$225,000
Sale Date:		Sale Price Type:	
Rec. Document #:	9429-245	Multi/Split Sale:	MULTIPLE
Document Type:	BARGAIN & SALE DEED	Other Document #:	

Title Company:
 Buyer: SMAH CORP
 Seller:

Assessment Closure

The following are the Tax Assessment for the 15 closest residential properties to the identified subject. The assessed value for each identified property may or may not be representative of the market value, or have the same tax ratios subject to local tax law.

Parcel Address	Lot Information	Assessor's Market Value	Assessed Value	Property Tax Rate - YR	Lot Area	Real
0 125 W MAIN ST			\$15,910		30,056 SF	
.03 3 COUNTRY LANE DR			\$5,180		10,890 SF	
.04 2 COUNTRY LANE DR			\$4,990		14,810 SF	
.04 114 W MAIN ST			\$3,475		10,890 SF	
.04 110 W MAIN ST			\$5,240		13,068 SF	
.05 4 COUNTRY LANE DR			\$5,630		10,890 SF	
.05 5 COUNTRY LANE DR			\$5,120		10,890 SF	
.07 6 COUNTRY LANE DR			\$5,475		13,068 SF	
.07 1 CEDAR ST N			\$6,145		13,504 SF	
.08 80 FT SALONGA RD			\$4,880		10,890 SF	
.08 3 CEDAR ST N			\$7,155		12,197 SF	
.08 7 COUNTRY LANE DR			\$7,600		10,890 SF	
.09 121 W MAIN ST			\$8,435		17,424 SF	
.09 2 CEDAR ST N			\$5,083		12,197 SF	
.09 8 COUNTRY LANE DR			\$5,130		13,068 SF	

Flood Report

The Subject Property of 125 W MAIN ST, KINGS PARK, NY 11754-1607 is in Zone X and is considered to be OUT of the Special Flood Hazard Area (SFHA).

AN AREA THAT IS DETERMINED TO BE OUTSIDE THE 1% AND 0.2% ANNUAL CHANCE FLOODPLAINS.

The flood information contained in this report was obtained from maps provided by the Federal Emergency Management Agency (FEMA). Whenever possible we will report if the subject property is inside or outside of a 100 year Flood Hazard Area. These areas are defined as areas that have a one percent (1%) chance in any given year of being affected by a significant flood.

The flood information contained in this report is merely a preliminary review intended to provide the buyer, seller or agent guidance and general proximity of the subject property in relation to the 100 years flood hazard area. The buyer should obtain exact specific information from the seller or agent prior to finalizing his decision regarding the purchase of a given property.

Contaminated Sites Report

Item	Proximity	Name/Facility Name	Address
EPA Definition:			

Hazardous Waste Facilities Report

Item	Proximity	Name/Facility Name	Address
1	.41MI.	FRANK & SON SQG_RCRISO:RCRIS -Small Quantity Hazardous Waste Generator or Other Facility	148 MAIN ST

EPA Definition:

SQG_RCRISO
 Persons or facility generating 220-2200 pounds (or 100-1000 Kg) per month of hazardous waste; are required to keep more records than conditionally exempt generators. The largest category of hazardous waste generators, SQGs, include automotive shops, dry cleaners, photographic developers or other facilities: burner, gas tanks, car oil, underground injection control etc.

Solid Waste Facilities Report

Item	Proximity	Name/Facility Name	Address
EPA Definition:			

[Back to the top](#)

ADDENDUM EIGHT

REPORT FROM CLIENT:

INTERVIEW WITH COMPANY REPRESENTATIVE

Meeting with J.J. Conway
6/14/05
2:00pm – 3:40pm

Floor leased by Clinton and Clinton Attorneys at Law.
Furman Law Firm sub-leases part of floor. Wall signs by elevators.
Main receptionist not directly connected to Furman/Rainmaker. No visible business cards of any kind.
Two other men and two women present in association with Furman Law Firm/Rainmaker.

The two women in the office were “convention girls”. They were learning about all the different investments, e.g. IRA’s, 1031 exchanges, stock market options, etc., so that when they met with potential investors at conventions, they could make suggestions on how to transfer those investments into Rainmaker investments.

One guy was George, JJ’s brother, not sure what he was doing.

The other guy was Scott (?) who they brought in from Arizona as a consultant (can’t remember for what). He’s a retired attorney (didn’t look that old).

Name mentioned: Tom Simon – Consulting doctor in New York

JJ is currently living in a condo in San Pedro, ocean view. Planning on selling within next 12-18 months for big profit. Recently was in Des Moines (pretty sure) for family reunion. Two brothers and one sister did not attend, both parents did.

No business cards available – Furman Law Firm can’t be used anymore, they’re making new ones with Rainmaker info

Told JJ Josh had an old friend with a lot of money that... didn’t let me finish, just said, “Tell him to call me.”

Raised 10+ million in “partnership” phase – 25% annual return paid monthly + quarterly dividends when beds are sold. 30-year contract, but Rainmaker expected to go public or be bought between 5 and 8 years.

“Membership” phase – 110% return over 3 yrs. 25% first yr., 25% second yr., 25% third yr., 35% lump (?).

Currently researching best way to proceed. Original thinking was to by presently operating facilities and change system to Rainmaker’s system. New thinking is to build from scratch, which would allow bed sales to begin at groundbreaking. Pre-sales at \$250k, \$495k after. Beds are “owned” by buyer for the rest of their life or at a

hypothetical cost of \$8000/mth. For example: if a buyer passes away after only 13 months, then their estate would receive \$146k back.

JJ is trying to convince Sid, et al to not sell beds at King's Harbor, but to keep it as a nursing home facility for bed owners to go to once they need more help than the assisted living facilities are offering. No additional charge, bed location just changes.

La Habra facility has HUD loan that can't be paid off until 2007(?) which is why it hasn't closed escrow yet. They are trying to figure out how, if possible, to get around that.

One of phone conversations that I listened in on (he took all of his calls while I was there): Investor named Winnie (sounded like) who has at least \$250k is planning on putting in another \$150k on Friday. She was also asking about taking money out if necessary. JJ explained that she could take money out at any time, however, if the money hadn't been in for over a year, then she would have to "give back" 12.5% of her returns. To pull money out, all she had to do was call Sid and allow up to 72 hours.

Mentioned Sid as being huge guy, 6'6".

I threw out that I would love to go New York and check things out. He said, "Tell me when and I'll have an attorney pick you up at the airport, give you a tour of the office and of the facilities (operating and in escrow/under inspection). You can meet Sid, Alireza, etc."

In regards to Ed Showalter/HighPark:

Investor(both in Rainmaker and Highpark) called while I was there to talk about property that was scheduled to close on July 22nd. Wanted to invest profit into Rainmaker.

JJ has not been bringing Ed any new investors for this entire year because of Ed's poor business management. Almost everyone JJ brought to him at end of last year is calling JJ, because they can't get a hold of Ed and Ed's office is not returning calls because they don't know anything, to find out what the deal is. JJ said Ed will be back next week from China, where he was negotiating cement deals, and that he would set up a face to face between Ed and I. If Ed doesn't say what I want to hear, I should request my original investment of \$50k to be returned immediately. If Ed doesn't follow through, JJ will help me get the money back. (He won't let Ed make him look bad.)

I drove by the property in San Clemente. It had a dumpster in front, weeds were overgrown everywhere, the roof had been removed (just framing there), roof tiles were stacked along side of wall, and the doors were all open or unlocked. The interior had been gutted and there was new framing throughout, but no drywall, etc. I found a permit issued to Ed Showalter for the property: Permit No. 0404160 or 04-4160, Description of work: Interior demo throughout dwelling; remove roof covering; (E) ply sheathing to remain. Date 12/23/04. BMP/water quality inspection on 12/30/04, initialed JH.

Stopped by county records building: property owners listed as Gary and Michele Silverman. Also drove by Highpark office in Gardena: industrial building, gated, no attendant to open gate at 4:20pm.

ADDENDUM NINE
LIST OF LLC MEMBERS

RAINMAKER MANAGED LIVING LLC
Members of Record as of March 23, 2005

Mr. Alireza Dilmaghani
C/O Furman Law Firm
116 W. 23rd Street
Suite 500
New York, NY 10011

Mr. Sidney Levine
C/O Furman Law Firm
116 W. 23rd Street
Suite 500
New York, NY 10011

Levine Family Trust
FBO Loanna and Mark Levine
C/O Furman Law Firm
116 W. 23rd Street
Suite 500
New York, NY 10011

Rainmaker Employee Retirement Trust
C/O Furman Law Firm
116 W. 23rd Street
Suite 500
New York, NY 10011

Furman Law Firm Employee Trust
C/O Furman Law Firm
116 W. 23rd Street, Suite 500
New York, NY 10011

Quest Group Private Pension Fund
C/O Furman Law Firm
116 W. 23rd Street, Suite 500
New York, NY 10011

Mr. James J. Conway
C/O Furman Law Firm
116 W. 23rd Street, Suite 500
New York, NY 10011

Mr. Cedric Lucas
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Suite 500
New York, NY 10011

Dr. Cathy Goodman
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Suite 500
New York, NY 10011

Mrs. Rachel Goodman
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STEVEN WALL and JENNIFER WALL
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Suite 500
New York, NY 10011

Mrs. Midge Seitz
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Mr Edwin Bieler
Mrs. Betty Bieler
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Mrs. Sandra Dawson {I.R.A.}
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Mr. Dominick Mellace
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Ms. Erendira Cronkhite
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Ms. Nanci Lewis
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Mrs. Leona Jo Helvey
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New York, NY 10011

Mrs. Leona Jo Helvey {I.R.A.}
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Mr. Richard Helvey (T.R.A.)
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Rey Mor Enterprises inc
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Mr. Darwin L. Tuttle
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Mr. Gerald Jonte
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New York, NY 10011

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Ms. Terri-Lee Jones
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Ms. Cristina J. Tuttle
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Mr. Robert Domino {I.R.A.}
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Hanh N. Hayashida
[Alston Tetsuo Hayashida/Survivor]
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Ms. Laura York
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Mr. Ronald Horowitz
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Ms. Michelle Ramelot
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Suite 500
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Mr. James and Mrs. Judy Saso
C/O Furman Law Firm
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Suite 500
New York, NY 10011

Oreck Family Trust
C/O Furman Law Firm
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Suite 500
New York, NY 10011

Mr. James and Mrs Diane Johnson
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Mr. Gary Strobel
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Mr. Gordon and Mrs. Patricia McGrane
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Mr. A. Albert and Mrs. Barbara Restum
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Keystone Investments
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Mr. Ronald and Mrs. Donna McNaughton
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Mr. George and Mrs. Jennie Conway
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Ms. Winnie Lee
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Mr. Kamyar Motamed
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Mr. Don DesBeins
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Surety Venture Capital
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Mr. Paul Swift
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Mr. Dean and Mrs. Julie Ann Restum
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Mrs. Sheri and Mr. Mark Sallos
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New York, NY 10011

Mrs. Karma and Mr. Daniel Conway
C/O Furman Law Firm
116 W. 23rd Street
Suite 500
New York, NY 10011

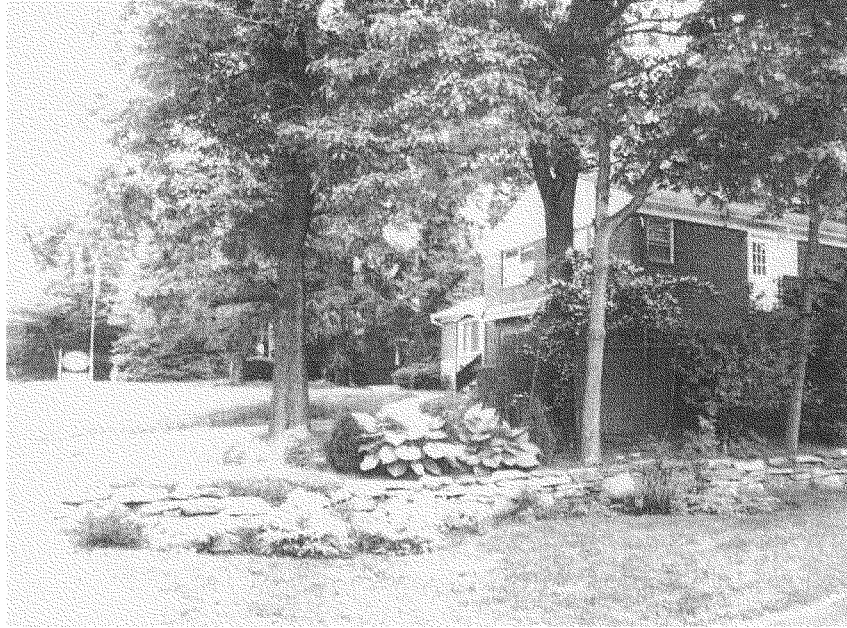
Ms. Jaimey Garrett
C/O Furman Law Firm
116 W. 23rd Street
Suite 500
New York, NY 10011

Mr. Joseph Cozza
C/O Furman Law Firm
116 W. 23rd Street
Suite 500
New York, NY 10011

The Willock Family Revocable Trust
C/O Furman Law Firm
116 W. 23rd Street
Suite 500
New York, NY 10011

**FUTURE MEMBERS TO BE ADDED
PRIOR TO PROPERTY CLOSING OR
FINAL PARTNERSHIP CLOSING DATE.**

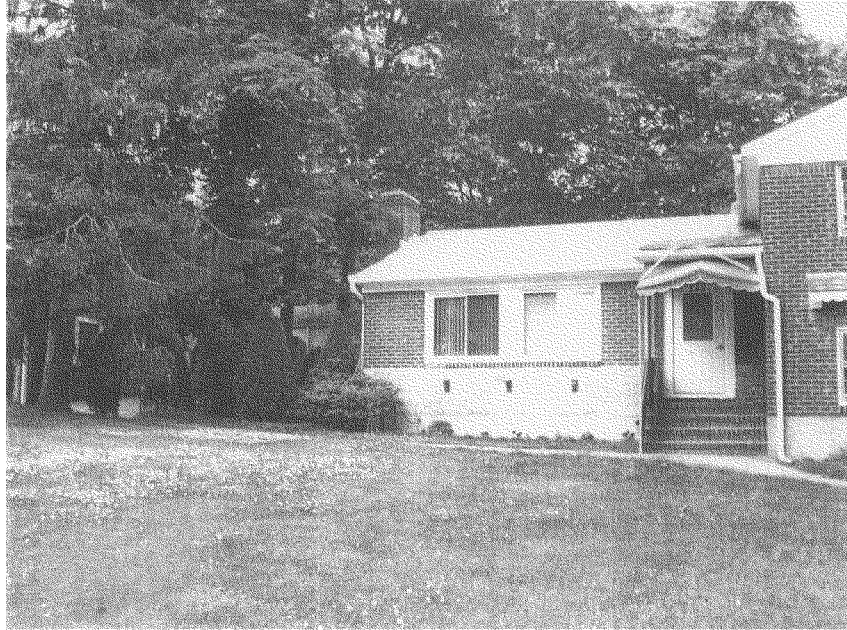
ADDENDUM TEN
SUNKEN MEADOW PHOTOS



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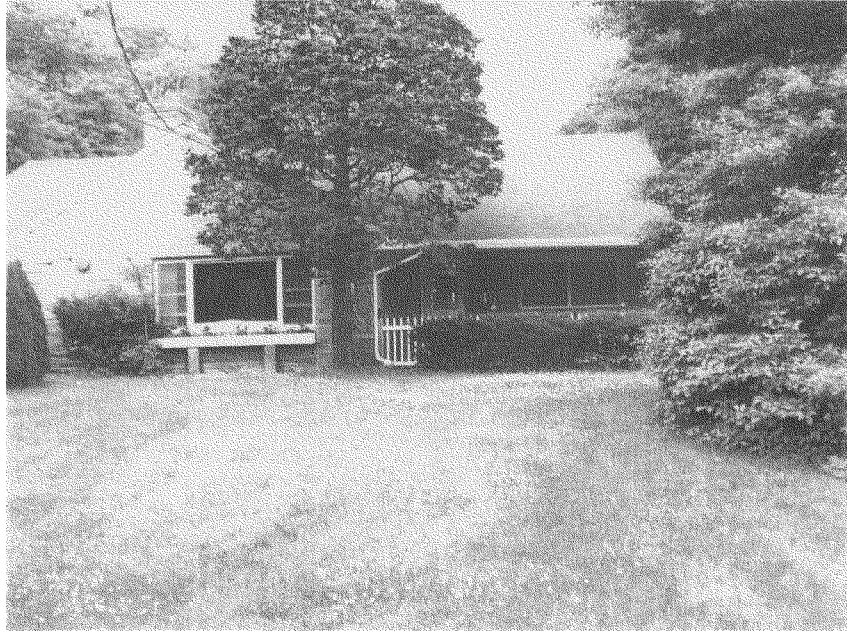




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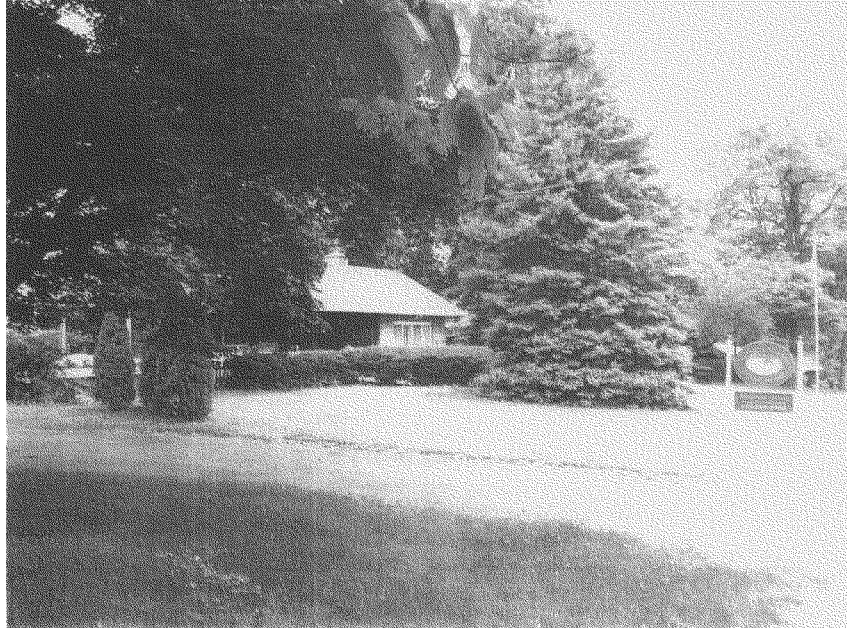


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Rainmaker Realty

ADDENDUM ELEVEN
WEB SITE OF RAINMAKER REALTY



Rainmaker Realty

Name
Joining Rainmaker
Residential Property
Commercial Property
Financing

Realty
Services
for the
smart
seller and
buyer

WHY PAY HIGH COMMISSIONS WHEN RAINMAKER WILL SELL YOUR PROPERTY FOR ONLY 4%

Hello my name is
Alireza
Dilmaghani, and I
am the principal
broker at
Rainmaker Realty.
I am also an
attorney at law and
General Counsel of
the Furman Law
Firm in New York
City. I am a
licensed real
estate broker in
the State of New
York.

Rainmaker Realty

I found in my law practice that many people were coming to the office for legal assistance based upon the fact they tried to sell their property as a F.S.B.O. [For Sale By Owner] only to run into many problems associated with the transfer of the property and financing of the property.

My clients ended up spending many thousands of dollars more in legal fees to fix their sale and closing problems than they would have spent in commissions to have the property transaction handled by a professional.

I created Rainmaker Realty to be the first Real Estate firm of it's kind to make buying and selling simple. Rainmaker Realty handles everything for you.


Rainmaker Realty

As you will see on the following pages our services far exceed the services offered by the competition and we charge a maximum of 4% commission.


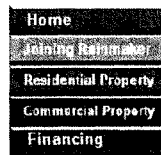
Thank you for taking the time to visit my web site. Please feel free to contact myself or my staff by calling 646-375-2348 (Toll call to New York City)



Rainmaker Realty



Rainmaker Realty

Realty
Services
for the
smart
seller and
buyer

The Rainmaker Realty Team hires and trains New York State licensed real estate sales people in all areas of the State of New York. Salespeople who are newly licensed or with years of experience are encouraged to join the team.

Rainmaker is looking for full or part time people. We are an Equal Opportunity Employer. Our compensation program includes a generous commission package as well as benefits after a minimum employment period.

The Rainmaker Realty program allows you to work from your home or office

Rainmaker Realty

while under the
direct
supervision of
the principal
broker Alireza
Dilmaghani.

If you are
interested in
joining the
Rainmaker
Realty Team
please e-mail us
today or call
646-375-2348



Rainmaker Realty



Rainmaker Realty



Home
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Residential Property
Commercial Property
Financing

Realty
Services
for the
smart
seller and
buyer

Rainmaker Realty specializes in Single Family, Duplex, Multi-Family and Apartment properties. We accept listings for any type of sale, including transfers, estates, foreclosures, swaps, leasing, rentals, fire damage, natural disaster damage, divorce, and much more.

The highest commission you will ever pay for our services is 4% on sales and 1.5 months on residential leases.

Rainmaker provides much more than the average realtor. Rainmaker sells your home, and should you so desire Rainmaker will

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also arrange all the financing, [Conventional and Creative] as well as arrange for the closing with assistance from experienced real estate attorneys. If you are leasing or renting Rainmaker Realty will manage the property for a small monthly percentage and even guarantee the rent.

One call does it all.

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Home
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Residential Property
Commercial Property
Financing

Realty
Services
for the
smart
seller and
buyer

Rainmaker Realty specializes in vacant land for commercial use, freestanding single commercial buildings, strip malls, plazas, medical offices, office buildings, industrial sites, and any other type of commercial or industrial property. We accept listings for any type of sale, estates, foreclosures, swaps, leasing, rentals, fire damage, natural disaster damage, divorce, and much more.

Our legal department at Rainmaker Realty will assist you with any litigation associated with the property including zoning problems, E.P.A. cleanup or superfund issues, tenant issues or financing problems.

Rainmaker Realty

Rainmaker Realty

is the only Real Estate firm in the State of New York that offers you complete services including Sales, Leasing, Financing, management and legal all under one roof. One call does it all.

The highest commission you will ever pay for our services is 5% on sales and 1.5 years on residential leases. All Commercial and Industrial fee's are subject to negotiation depending on the final amount of the sale or lease.

Rainmaker provides much more than the average realtor. Rainmaker will sell, lease or swap your property, and should you so desire Rainmaker will also arrange all the financing, [Conventional and Creative] as well as arrange for the closing with assistance from

Rainmaker Realty

experienced real estate attorneys. If you are leasing or renting Rainmaker Realty will manage the property for a small monthly percentage and even guarantee the rent.

Remember !!! One call does it all.

Call now! 646-375-2348



Rainmaker Realty



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Joining Rainmaker
Residential Property
Commercial Property
Financing

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Services
for the
smart
seller and
buyer

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financing !

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Realty is unique
as it offers
servcies no
other real estate
frim offers.

Like other real
estate firms
Rainmaker
Realty offers
conventional
real estate
financial
services
through
association with
first mortgage
lenders, second
mortgage
lenders, banks,
finance
companies,
private lenders
and the full
spectrum of
government
financing such
as V.A., F.H.A.
and H.U.D.

Unlike other real
estate firms
Rainmaker
Realty offers
bridge loans,
mezzanine
financing, take

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out loans,
wraps, and
creative
financing such
as equity
participation
and balloon
notes.

Rainmaker also
offers private
placement
financing
services
through Realty
Partners, a
general
partnership
specializing in
real estate
financing.
Realty Partners
is a private
group of real
estate lenders
who provide
financing for
any type of real
estate situation
including credit
difficulties.

Remember! One
call does it all.

Call Rainmaker
Realty today at
646-375-2348



ADDENDUM TWELVE
REPORT ON "BLUE SKIED" STATUS

To: Barry
RE: Rainmaker

June 16, 2005

Regarding Rainmaker Managed Living, LLC, and the four primary parties involved, namely Sidney F. Levine, Alizera Dilmaghani, James Joseph Conway, and Antoinette Wooten, I contacted both the New York and California securities offices about their "blue-sky" status and if they are licensed lenders in those states.

On June 14, Mr. Jaffe (212-416-8000) in the NY Attorney General's Office, Securities Bureau ran searches on each of the names given. Neither Rainmaker Managed Living, LLC nor any of those four people associated with the LLC are listed with their office. I verified through the NY State Banking Department (Tysha, 877-226-6589) that they are not licensed lenders either.

Also on June 14, I spoke with Tracey at the California Department of Corporations, Securities Regulation Division (866-275-2677) who confirmed that Rainmaker Managed Living, LLC, is neither "blue-skied" or a licensed lender in this state, either.

Let me know if I can be of any further assistance.

Shannon Boelter

ADDENDUM THIRTEEN
JUNE 14 EMAIL FROM CARL BRYANT

Subj: **Hi--print this out for the Rainmaker file**
Date: 6/14/2005 12:23:08 PM Pacific Standard Time
From: minkow@integrity.com
To: mrkcon2@aol.com

-----Original Message-----

From: Carl Bryant [<mailto:cbryant@cornerstonemedlegal.com>]
Sent: Tuesday, June 14, 2005 9:46 AM
To: minkow@integrity.com
Subject: Rainmaker

Barry,
I spoke to Wendy Brown, Supervisor for Adult Health in Long Island Division (631) 851-3090, and she indicated that there had been no change of ownership had occurred or that an application for a change of ownership was in process. Also, cannot seem to get through to the facility by telephone. Will continue to try but the phone may not be in service.
Thanks, Carl

Tuesday, June 14, 2005 America Online: MRK CON 2